ARCANDOR

COMMITTED TO CREATING VALUE

ANNUAL REPORT OF THE GROUP 2007/2008

CONTENTS

At a glance

		01.10.2007 – 30.09.2008*	01.10.2006 – 30.09.2007*	Change in %
SALES (like-for-like pro forma basis)				
Thomas Cook [1]	mill. €	11,378.5	11,758.5	-3.2
Primondo	mill. €	4,309.8	4,037.5	6.7
Karstadt	mill. €	4,095.1	4,238.2	-3.4
Operating segments [1]	mill. €	**19,783.4**	**20,034.2**	-1.3
Other segments [2]	mill. €	205.6	262.3	-
Reconciliation account [1]	mill. €	-77.6	-156.3	-
Sales (adjusted) [1]	mill. €	**19,911.4**	**20,140.2**	-1.1

		01.10.2007 – 30.09.2008*	01.10.2006 – 30.09.2007*	Change in mill. €
EARNINGS (like-for-like pro forma basis)				
Thomas Cook [1]	mill. €	734.7	534.6	200.1
Primondo	mill. €	89.7	4.7[3]	85.0
Karstadt	mill. €	-4.2	147.7	-151.9
Operating segments [1]	mill. €	**820.2**	**687.0**	**133.2**
Other segments [2] Reconciliation account/Holding company	mill. €	-66.4	-86.1	19.7
EBITDA (adjusted) [1]	mill. €	**753.8**	**600.9**	**152.9**
EBITDA margin (adjusted) [1]	*in %*	*3.8*	*3.0*	-

		01.10.2007 – 30.09.2008*	01.10.2006 – 30.09.2007*	Change in %
FINANCIAL SITUATION				
Investments	mill. €	397.0	321.2	23.6
Depreciation and amortization (not including amortization of goodwill)	mill. €	-528.9	-518.6	-2.0
Net financial liabilities/assets	mill. €	-801.8	185.4	-
Finance lease	mill. €	-1,259.0	-814.3	54.6
Working capital	mill. €	-1,109.5	-567.5	-95.5
FULL-TIME EMPLOYEES at the balance-sheet date (like-for-like pro forma basis)				
Thomas Cook	number	31,264	29,070	7.5
Primondo	number	15,606	16,837	-7.3
Karstadt	number	23,195	24,304	-4.6
Operating segments	number	**70,065**	**70,211**	-0.2
Other segments [2], Holding company	number	378	426	-11.3
Total	number	**70,443**	**70,637**	-0.3
ARCANDOR SHARE				
Earnings per share (undiluted)	€	-3.35	0.13[4]	-
Share price at the balance-sheet date	€	2.33	23.48	-90.1
Highest price	€	23.21	29.21[4]	-20.5
Lowest price	€	1.87	17.96[4]	-89.6

* The data has been adjusted. The adjustments relate to special factors, divestments and restructuring expenses in EBITDA.

1) In order to better illustrate the development of the business Arcandor compares a full year of the current period (October 2007 to September 2008) for Thomas Cook Group plc with a full year period (October 2006 to September 2007) as if Thomas Cook Group plc had already existed. The October results for each year represent an Arcandor calculation consisting of the difference between the full year results an the September cumulative numbers of Thomas Cook Group plc. The October numbers of each year contain the usual year end bookings/adjustments and have not been readjusted for this pro forma exercise.

2) The Other segments comprise: Services and Real Estate.

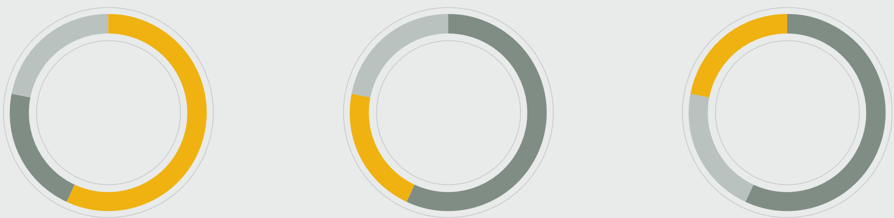
3) Adjusted for the accounting of catalog costs and program fees.

4) Data for the period for January 1, 2007 to September 30, 2007.

Arcandor is a leading tourism and retail group with three independent operating businesses: Thomas Cook, Primondo and Karstadt. In our investment portfolio, we are concentrating exclusively on business segments in which we have a leading market position with the objective of consolidating this market position on a sustained basis.

ARCANDOR
COMMITTED TO CREATING VALUE

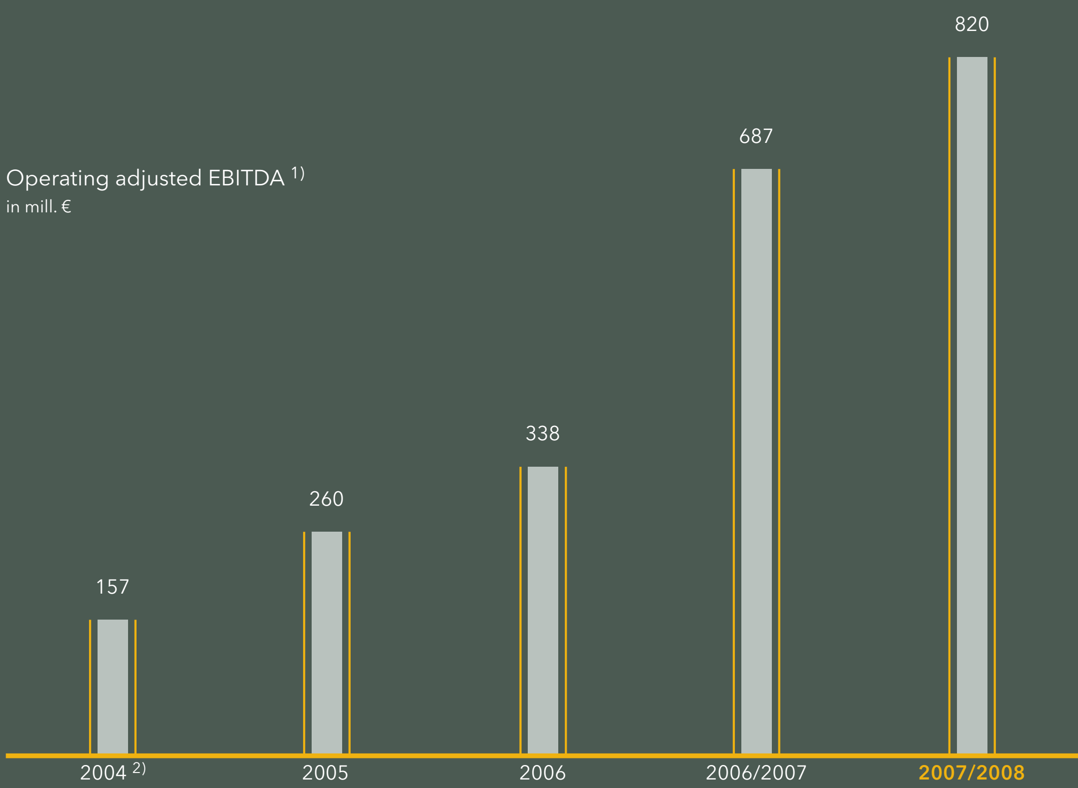
THOMAS COOK	PRIMONDO	KARSTADT
No. 2 in Europe No. 2 in Germany No. 2 in the UK No. 1 in Scandinavia No. 2 in Canada	No. 1 in Germany No. 3 in e-commerce Market leader in many European countries Strong portfolio in specialty mail order	No. 1 in Germany No. 1 in the German textile market No. 1 in the German sports market Top locations
57 %	22 %	21 %



Share of Group sales in %

Despite the difficult environment, we defended our position in the 2007/2008 financial year. Overall, our three operating divisions – Thomas Cook, Primondo and Karstadt – again increased their adjusted EBITDA. As a result, we continued an upward operating trend which has been in place for the last four years. In comparison to 2004, we improved adjusted EBITDA of our operating segments significantly.

Operating adjusted EBITDA [1)]
in mill. €



[1)] Adjusted = without restructuring expenses 2004 – 2005 before changes in accounting policy.
[2)] In 2004, Thomas Cook was consolidated by the equity method.

EARNINGS CONTINUOUSLY INCREASED

Dr. Thomas Middelhoff
Chairman of the Management Board

Dear shareholders,

For some time now, we have been moving in an extraordinarily challenging economic environment. The current economic and financial market crisis is a crisis of a new kind, for which there is little experience and no panacea to fight it and of which the duration cannot currently be estimated.

IN THE OPERATING SEGMENTS ADJUSTED EBITDA UP 133 MILL. € TO 820 MILL. € IN THE 2007/2008 FINANCIAL YEAR

The Arcandor Group and Arcandor shares were already put under pressure early on in connection with the crisis on the capital market because, in the context of pessimistic expectations, it was assumed that the areas of tourism and trade could be impacted in a strong fashion. Despite the difficult environment, we defended our position in the 2007/2008 financial year. Overall, our three operating divisions – Thomas Cook, Primondo and Karstadt – again increased their adjusted EBITDA. As a result, we continued an upward operating trend which has been in place for the last four years. In comparison to 2004, we improved adjusted EBITDA of our operating segments by a strong factor. In the 2007/2008 financial year (pro forma), it rose by 133 mill. € to 820 mill. €. That equates to a rise of 19.4 %. Thomas Cook and Primondo developed well and improved their result, while the result at Karstadt significantly worsened compared to the previous year as a result of the weak economic environment and several internal factors. Adjusted for currency effects, adjusted Group sales in the 2007/2008 financial year were up 3.1 % year-on-year. On a euro basis, adjusted Group sales reached 20 bill. € and were therefore almost at the same level of the previous year. In comparison to 2004, we have thus increased Group sales by around 50 %.

In the restructuring phase of the Arcandor Group, we invested significant financial funds in the realignment of our operating segments. In the reporting period alone, there were restructuring expenses in the income statement totaling 434 mill. €, which primarily benefited the Thomas Cook and MyTravel merger. Therefore, through consistent focusing on tourism, e-commerce and internationalization, we created future-driven structures and secured tens of thousands of jobs.

This operating development in the 2007/2008 financial year is not shown in the consolidated income statement, particularly as a result of restructuring. The consolidated result totaling minus 746 mill. € is not primarily affected by sustained operating developments, but by a series of one-off expenses and non-recurring effects. Thus, it includes high restructuring expenses and extraordinary negative charges in the area of taxes as well as earnings from real estate disposal. Also, it needs to be considered that the month of October has not been taken into account in the Thomas Cook Group plc as a result of the financial year being shortened to eleven months. However, in this month, Thomas Cook generates a significantly positive seasonal result.

From the current 2008/2009 financial year, these extraordinary negative effects will decline significantly.

THOMAS COOK AND PRIMONDO POST GOOD PERFORMANCE, KARSTADT'S PROFITS DECLINE

Thomas Cook Group plc reported a strong 2007/2008 financial year and exceeded market expectations. Adjusted EBITDA (pro forma), consolidated in the Arcandor financial statements, increased by 200 mill. € against the previous year to 735 mill. € (535 mill. € in the previous year). The annual financial statements of the tourism company show adjusted earnings per share in local currency (pro forma) amounting to 24.1 pence. This equates to an increase of 41%. The EBIT margin was 4.2%, increased by 36% and lies significantly above comparable competition. The higher-than-expected synergies resulting from the MyTravel acquisition made a particular contribution to this good earnings performance. In addition, effective capacity management which resulted in a rigorous reduction in unprofitable sales increased the sales margin on a sustained basis. The significant earnings increase is all the more pleasing because it was achieved despite the additional negative impact of approximately 170 mill. € resulting from higher fuel costs. Sales of the tourism group, which presents its accounts in British Pound, were up 11.8% against the previous year. Translated into euro, Thomas Cook posted sales of 11.4 bill. €. This equates to a decline of 3.2%.

Primondo improved adjusted EBITDA by 85 mill. € to 90 mill. €, thus posting a significantly positive operating income for the first time in many years. This was largely due to the significant growth in online business, the improved cost structure in the Quelle Group, good international sales and the results upturn at the home-shopping channel HSE24. As is normal practice for international competitors, Primondo now no longer reports interest and fees from the sale of installment credit receivables in EBITDA, but separately in the income statement. In the current financial year, these changes to financial reporting and accounting treatment due to changed accounting standards resulted in a positive EBITDA effect of approximately 63 mill. € (45 mill. € adjusted figure in the previous year). Primondo increased adjusted sales by 6.7% to 4.3 bill. € (4.0 bill. € in the previous year). International business was particularly pleasing, with sales up by 21%. In Germany, the continued high increases in e-commerce are increasingly substituting declining sales in the classical catalog business.Within just a few years we have been able to turn around the weak mail order business model from 2004 characterised with steadily falling sales into today's business model of a strongly growing, innovative homeshopping provider.

During the past financial year, adjusted EBITDA of the Karstadt business amounted to minus 4 mill. € (148 mill. € in the previous year). This means earnings worsened in comparison to the previous year by 152 mill. €. The weak 2007 Christmas period, muted consumer sentiment and particularly costs not adjusted for the reduced volume of business were key factors. Adjusted sales were 4.1 bill. € (previous year: 4.2 bill. €). This equates to a decline in sales of 3.4%. However, during this period, Karstadt experienced temporary sales shortfalls as a result of large-scale store conversions (3% of the sales space) and by discontinuing sales space, such as the book area, which had historically delivered unprofitable sales.

SHARE PRICE TREND DISAPPOINTING

Many shares declined sharply in recent months. The performance of the Arcandor share was catastrophic. You are therefore justifiably disappointed, because as an Arcandor shareholder you had to put up with a particularly large drop in value. What were the causes of this?

The Arcandor share price was of course hit by the crisis on the capital market. In anticipation of a recession in Europe, our price had been under pressure since January 2008.

However, I would like to stress that the crisis on the capital markets was an important reason, but not the only reason for our share price trend. Of course, we did do many things right. Before the outbreak of the financial market crisis, we implemented important strategic measures. These included the realignment of our travel operations with the listing of Thomas Cook Group plc and the sale of the majority of our real estate at a price which it would by no means be possible to achieve today. In Primondo, we also focused rigorously and in good time on e-commerce and Eastern Europe and implemented the launch of TV shopping.

However, we also made mistakes, particularly in communication. Please be assured that we have learnt from these mistakes and will do better in future.

We were too optimistic in communicating our targets, particularly with regard to the time required for the sale of our 49% stake in the real estate company Highstreet. Contrary to our announcements and plans, completion of the sale was significantly delayed. However, on a positive note, we concluded the transaction successfully, despite conditions in which the sale did not seem possible. A further negative factor was the unexpectedly weak performance of Karstadt mid-way through 2008. Here, in the course of the realignment, cost discipline was neglected. Karstadt's performance is particularly exasperating for the Arcandor Management Board. We attempted to reverse the trend with comprehensive measures, and also put new key managers in place. In addition, in September 2008, we had to negotiate with banks over seasonal financing requirements. At a time when the banking crisis was reaching new highs, lending was significantly restricted and two participating banks were strongly affected by the crisis. However, we ultimately overcame this challenge successfully and secured refinancing for the Group. As at September 30, 2008, the Group reported bank debts and other financial debts of 527 mill. € net. In addition, there is a bond of 275 mill. €.

The large-scale realignment of the Group and the change of the financial year significantly impacted the comparability of our figures. On the capital markets and in the press, this led to confusion and scope for interpretation. We also had to deal with these problems in the present annual report. On pages 10 and 11, we have shown how and why we have achieved comparability of our figures. From the 2008/2009 financial year, these accounting distortions will no longer play a significant role in financial reporting and our figures will be transparent again.

LOOKING CONSISTENTLY AHEAD – FOCUS ON CASH FLOW, LOWERING DEBT AND INCREASING EARNINGS

We have already made good progress with the realignment of the Arcandor Group. Your Group is now in a good position. In the 2007/2008 financial year, thanks to adjusted EBITDA in our operating segments of 820 mill. €, we have created a solid platform for further development of the Group and are now firmly focused on the future. Our focus is on cash flow, lowering debt and increasing earnings.

The Thomas Cook tourism group and the homeshopping specialist Primondo are the two strongly growing units in the Arcandor Group. We want to advance organic and external growth in both operating segments. Key to this growth strategy are the continued expansion of the e-commerce business and further internationalization of the business.

Thomas Cook is showing itself to be robust in the current market environment. Our largest business segment has a solid balance sheet, high cash flow, an efficient cost structure and an excellent market position in Europe. In addition, the flexible business model allows us to react quickly to a changing economic environment.

Primondo will continue to grow and to improve cash flow significantly. Primondo is already achieving 70 % of sales in its growth areas. In addition to the substitution of catalog business with e-commerce and international expansion, the focus is on TV shopping and expanding specialty mail order.

At Karstadt, the realignment of the business model towards trading up has been largely implemented. Now we are concentrating on strengthening sales, costs and trimming staff at the administrative headquarters. We are satisfied that we have got to grips relatively quickly with technical errors which led to the inflation of costs. The efficiency program which has since been introduced will also make a significant contribution to this.

In terms of looking ahead, this also means that we are continuing to work on costs and reduce our debt in the retail segments and in the Holding. Therefore, in a unique alliance, corporate management as well as trade union and employees' representatives of Primondo and Karstadt have agreed on a cost reduction contribution from all those involved in the company at all levels for three years on the basis of a "Pact for the Future". The "Pact for the Future", which of course includes the Arcandor Holding company, will be one of several decisive steps towards the necessary financial stabilization and economic securing of the Arcandor Group.

SHAREHOLDER STRUCTURE STRENGTHENED

Sal. Oppenheim, the largest private bank in Europe, has been the largest Arcandor shareholder since October 23, 2008. The bank's commitment has increased the strength of the Group. Sal. Oppenheim has agreed to support the current strategic direction actively. The Madeleine Schickedanz pool will also continue to support Arcandor.

This strong shareholder basis ensures ongoing independence. We have learnt from the current financial crisis and in particular from our credit negotiations that stronger independence in financing is essential. Therefore, we are aiming to increase the necessary financial strength of the Group internally by embarking on a consistent earnings and cash flow oriented road to success in the segments. The “Pact for the Future” will make a considerable contribution to this, with an effective cash flow volume of 345 mill. € over three years.

EARNINGS FORECAST OF ADJUSTED OPERATING EBITDA OF MORE THAN 1.1 BILL. € CONFIRMED

We are aware of the fact that it is currently difficult to make concrete forecasts due to the uncertain economic environment. Despite the challenging economic situation, it should still be noted that the strain on consumers in Germany has been substantially relieved in recent months thanks to the fall in the rate of inflation and reduced energy prices and that they thus have more spending power. This should bolster our retail segments. The Thomas Cook Group, the operating segment which makes the largest earnings contribution by far in the Arcandor Group, is able to adapt to economic changes quickly and flexibly in terms of both capacity and product mix thanks to its efficient business model. It also greatly benefits from the price of oil which has again fallen significantly. The company is also pursuing a very conservative and successful fuel hedging and has again increased its synergy targets for the 2008/2009 financial year. Therefore, despite the difficult market environment, the Thomas Cook management remains confident that it can achieve the targets that have been set.

We in the Arcandor Group have prepared ourselves in advance for a difficult 2008/2009 financial year and have taken measures to offset any potential economic pressure on sales through flexibility, increased efficiency and cost reductions.

We are thus very well prepared and, based on our current knowledge, we are also expecting strong growth of adjusted EBITDA in our operating segments in the current 2008/2009 financial year. We confirm our forecast and are still planning adjusted EBITDA of more than 1.1 bill. € in our operating segments for the current financial year. This represents an earnings upturn in the operating units of at least 34%. However, in order to achieve our forecast, it is necessary that economic development in tourism and retail moves in line with statements currently available from economic research institutes and that the crisis in the financial market does not get any worse.

This is my last Annual Report as Chairman of the Management Board of Arcandor AG. During the year, for the second time, I had extended my term of office as Chairman for a fixed period, and was scheduled to leave Arcandor at the end of 2009 at the latest, in order to resume my business activities outside the Group.

Following the successful restructuring measures and the realignment of the Group over the past four years, Arcandor AG will enter into a new phase in the gradual reshaping of the company in January 2009. The strategic decisions related to this will be taken by the management, which will also structure this development in the longer-term. Against this backdrop, on March 1, 2009, I will hand over my position as Chairman of the Management Board of Arcandor AG to Dr. Karl-Gerhard Eick, currently CFO of Deutsche Telekom AG. I will support the Chairman of the Supervisory Board, Friedrich Carl Janssen, and the major shareholder Sal. Oppenheim in an advisory capacity concerning Arcandor AG.

I would like to thank you as valued shareholders for your confidence and your patience. The last financial year has severely tested you. Particular thanks go to our more than 86,000 employees. They have shown their strong potential in a very challenging year. The current market environment is a huge challenge for us all. However, I am convinced that we will achieve our aims and that your company will again create value on a sustained basis.

For the Management Board
Yours,

Dr. Thomas Middelhoff
Chairman of the Management Board

Dr. Thomas Middelhoff
Chairman of the Management Board

- Corporate Communications
- Investor Relations
- Law
- Audit
- Management projects
- Human Resources/ Labour Relations Director
- ARCANDOR Academy

Manny Fontenla-Novoa
Member of the Management Board

- Thomas Cook

Rüdiger Andreas Günther
Member of the Management Board

- Controlling
- Treasury
- Accounting
- Taxes
- Mergers & Acquisitions
- Financial Services
- Real Estate

As at: 01.01.2009

Marc Sommer
Deputy Chairman of the Management Board

- Primondo
- Corporate Service Group
- Social Affairs
- E-Commerce

Stefan W. Herzberg
Member of the Management Board

- Karstadt

Several changes were undertaken or introduced in the **Management Board** of Arcandor AG during 2008. Their purpose is to ensure continuity in management and at the same time to push forward making Arcandor AG more streamlined. The number of members on the Management Board fell to five.

During the year, for the second time, **Dr. Thomas Middelhoff** extended his term of office as Chairman of the Management Board for a fixed period. He was due to leave the company at the end of 2009 at the latest.

In 2009, Arcandor AG will enter into a new phase of long-term reshaping of the company. The strategic decisions related to this will be taken by the management, which will also structure this development in the long-term. Against this backdrop, **Dr. Thomas Middelhoff** will hand over his position as Chairman of the Management Board of Arcandor AG to **Dr. Karl-Gerhard Eick** on March 1, 2009.

Marc Sommer, who has headed Primondo since January 1, 2006, was appointed Deputy Chairman of the Management Board with effect from April 23, 2008.

Manny Fontenla-Novoa, CEO at Thomas Cook Group plc, was appointed as a member of the Arcandor AG Management Board, also effective from April 23, 2008.

Rüdiger Andreas Günther, former CFO of Infineon AG, was appointed CFO of Arcandor AG effective from December 1, 2008.

Stefan W. Herzberg, who has been Chairman of the Management Board of Karstadt Warenhaus GmbH since August 2008, was appointed as a member of the Arcandor AG Management Board effective from December 1, 2008.

Thus, the Arcandor AG Management Board has been re-established and all three operating segments (Thomas Cook, Primondo and Karstadt) are represented.

Dr. Matthias Bellmann, Chief HR Officer and Human Resources director of Arcandor AG, decided to pursue new challenges outside the Group after his contract expired at the end of September 2008.

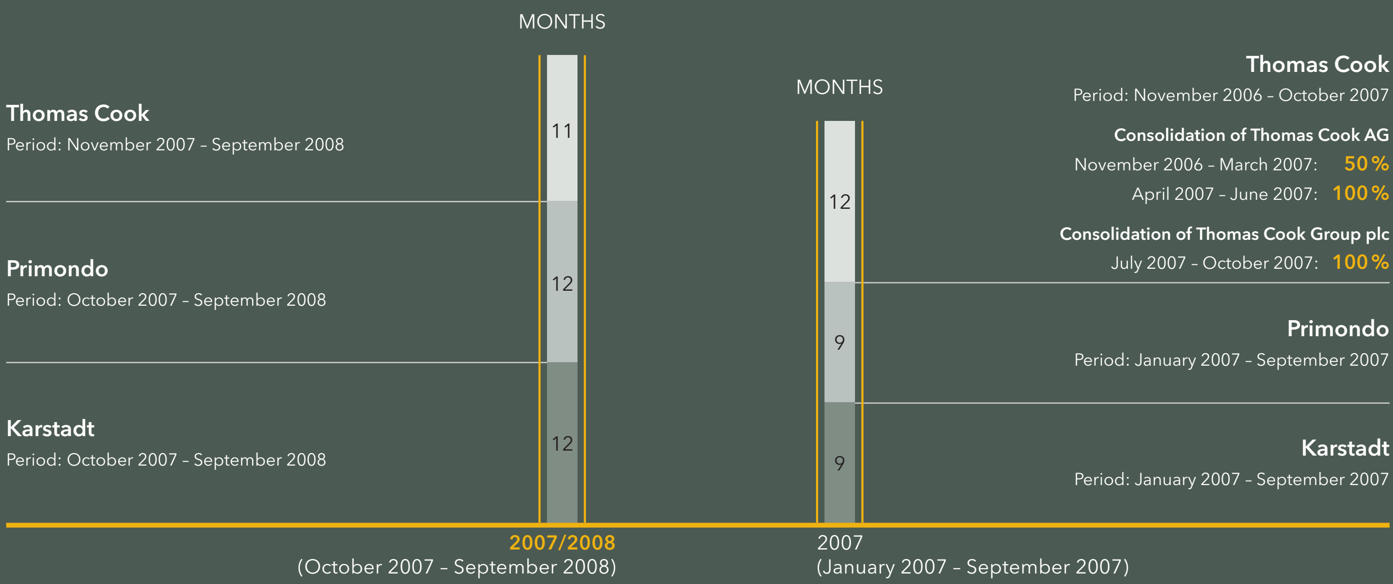
Dr. Peter Diesch, who was responsible for Finance, Human Resources and Karstadt on the Arcandor AG Management Board, has asked the Supervisory Board to relieve him of his duties from December 31, 2008 for personal reasons.

Prof. Dr. Helmut Merkel, member of the Management Board responsible for the areas of Group Purchasing, IT and Logistics, will be leaving Arcandor AG on December 31, 2008 at his own request. However, he will continue to represent the Company in the relevant groups of the BAG, the HDE (Main Association of the German Retail Trade), and the BDA (Confederation of German Employers' Associations).

Peter Wolf, member of the Arcandor AG Management Board and Chairman of the Karstadt Warenhaus GmbH Management resigned his offices on July 31, 2008 and left the Group to address new business challenges.

OVERVIEW AND COMPARABILITY ON THE BASIS OF

IFRS presentation

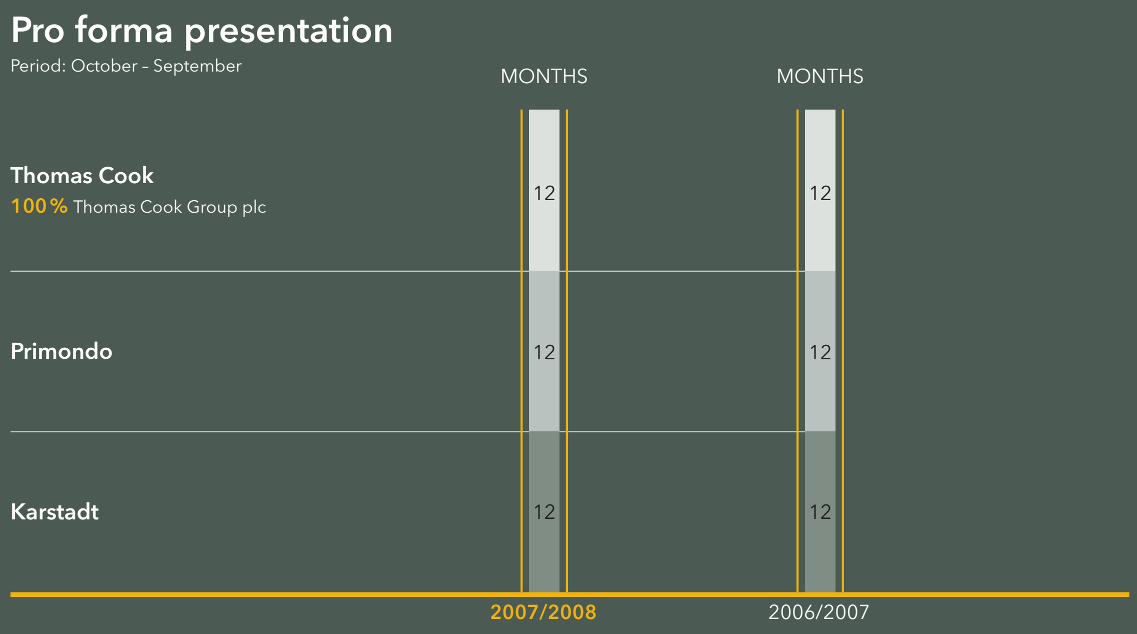


The IFRS presentation does not represent the sales and earnings power of the Arcandor business segments and, in particular, does not show the complete twelve-month operations of the Arcandor Group in the reporting year (October 1, 2007 to September 30, 2008) and in the previous year (January 1, 2007 to September 30, 2007). This is due to the following reasons:

- As a result of the change of the financial year-end date, for Thomas Cook Group plc, the 2007/2008 financial year comprises only eleven months. October 2007, in which earnings were strong, is not included.
- In the 2007 financial year, as a result of the change of the Arcandor financial year-end to September 30, Primondo and Karstadt were only consolidated for nine months, and Thomas Cook for twelve months.
- The increased stake in Thomas Cook AG in 2007 from 50 % to 100 % and the acquisition of MyTravel resulted in three different sets of reference data in the 2007 financial year.

This presentation, which is in accordance with IFRS, see consolidated financial statements and notes to the consolidated financial statements.

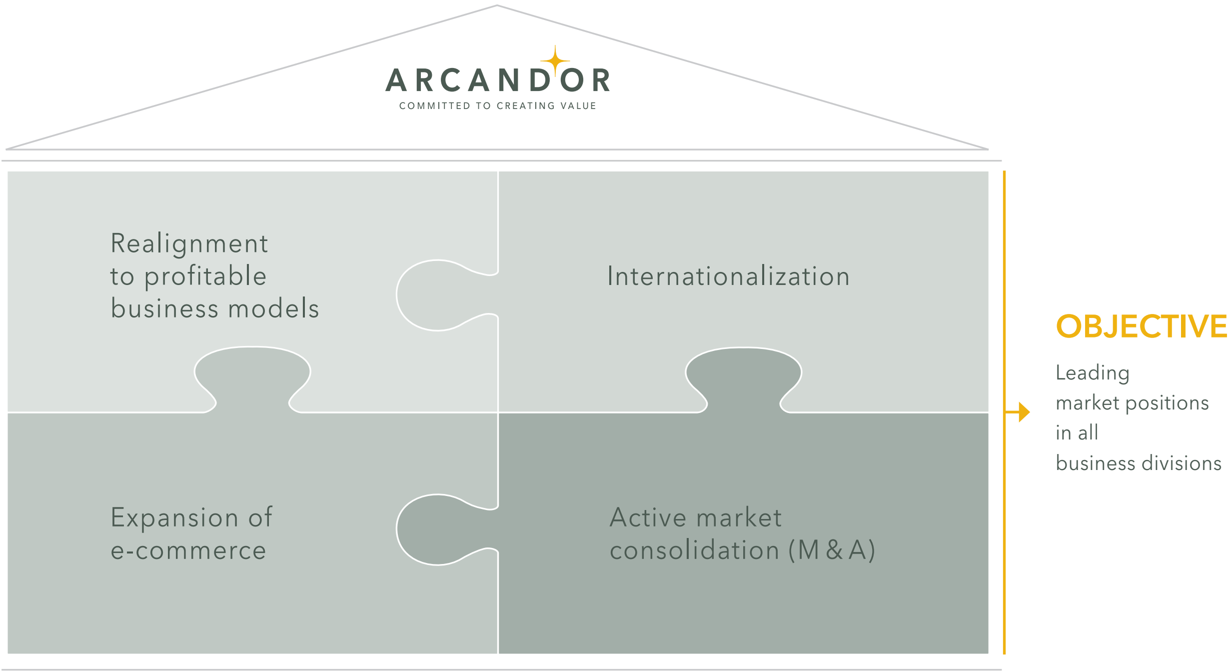
PRO FORMA PRESENTATION



In the pro forma presentation, in order to improve comparability, the twelve-month reporting year (October 2007 to September 2008) has been compared against a twelve-month previous year (October 2006 to September 2007). Thomas Cook has therefore been presented as if Thomas Cook Group plc had already existed last year in its present form.

These figures are outlined in the first part of the Annual Report.

Strategy



Arcandor is pursuing a clear strategy

The Arcandor Group is managed by a streamlined and efficient financial holding company. Arcandor AG is pursuing a clear Group strategy. In our investment portfolio, we are concentrating exclusively on business segments in which we have a leading market position with the objective of consolidating this market position on a sustained basis. The focus of investments into the three independent businesses of Thomas Cook, Primondo and Karstadt has been completed. In the past years we invested significant financial funds in the restructuring and realignment of our business segments and we have been making good progress in the overall operating development. At the same time, we consistently disposed of low-potential sub-segments in the core businesses.

In all core business segments, our strategy is driven in a major way by four elements:

- Realignment to profitable business models
- Internationalization
- Expansion of e-commerce
- Active market consolidation (M & A)

The listed Thomas Cook tourism group (share of Group sales: 57 %) and the homeshopping specialist Primondo (share of Group sales: 22 %) are the two strong-growing units in the Arcandor Group. Various market forecasts agree that tourism and homeshopping have high growth potential in Europe. Accordingly from a strategic vantage point, we are taking an unrestricted positioning on these two growth areas and will push organic and external growth in the two business segments. This growth strategy emphasizes continued development of the strong e-commerce business and the expansion of international business. On the basis of vigorous portfolio streamlining, we have made a concerted effort in past years to reduce our heavy dependency on over-the-counter retail in Germany. The focus is now particularly on streamlining the cost base, in addition to realigning the Karstadt business model (trading up).

WHAT WE HAVE ACHIEVED

- Successful strategic reorganization into tourism and retail group
- Continued improvement of adjusted operating EBITDA
- Creation of the world's second-largest tourism company
- Transformation of Primondo into a leading European homeshopping provider
- Karstadt realigned through trading up
- Disposal of department store real estate
- Divestment of non-core activities

WHAT IS YET TO BE DONE

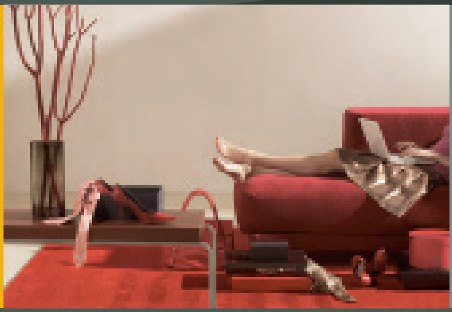
- Improve cash flow
- Push forward with international growth
- Continue strong expansion of e-commerce
- Improve Karstadt cost structure
- Active market consolidation in Europe

THE OPERATING SEGMENTS

THOMAS COOK

The world's second largest leisure travel group

PRIMONDO



Leading European homeshopping provider

KARSTADT

Leading German department store

Our strategy

- Maximise value of mainstream package holidays
- Develop position as leading independent travel provider
- Leading travel-related financial services provider
- Capture growth through M&A and strategic partnerships

Our goal

- Expansion of market leadership
- Profit-oriented usage of high potential through organic and external growth
- Create sustained value for shareholders
- Be the employer of choice for staff

Our strategy

- Expansion of the growth areas e-commerce, international business, specialty mail order and teleshopping
- Stabilizing universal mail order in Germany
- Focus on cash flow
- Value-creating and continuous optimization of the portfolio

Our goal

- Expansion of leading positions in Europe
- No. 1 in e-commerce
- Sustained positive cash flow and profitable growth

Our strategy

- Realignment of business model
- Optimizing the category mix and organization
- Clear product range strategy and reduction of complexity in purchasing
- Rigorous process optimization and cost reduction

Our goal

- Expansion of market leadership
- Significant increase of profitability and cash flow

TOURISM remains a growth market. Thomas Cook Group plc is a very well positioned company with a flexible business model and as a result is relatively unaffected by economic fluctuations.

THOMAS COOK REMAINS ON COURSE FOR SUCCESS

THOMAS COOK

What we have achieved

- Thomas Cook is the world's second-largest tourism group
- Outstanding market position – No. 1 or No. 2 in most markets
- Flexible business model
- Tapping full potential of synergies from MyTravel acquisition – synergies higher than planned
- Good earnings performance of the companies acquired
- Expansion of e-commerce

What is yet to be done

- Further earnings improvement
- Continue to develop the successful strategy
- Further optimize the mainstream package holidays segment
- Extend the independent travel business and travel-related financial services
- Further expand e-commerce

Key figures

		01.10.2007 – 30.09.2008	01.10.2006 – 30.09.2007		Change
Sales*	mill. €	**11,378.5**	**11,758.5**	in %	-3.2
Earnings*					
EBITDA (adjusted)	mill. €	**734.7**	**534.6**	in mill. €	**200.1**
EBITDA margin (adjusted)	*in %*	*6.5*	*4.5*	-	-
Full-time employees at the balance sheet date	number	**31,264**	**29,070**	in %	7.5

* Like-for-like pro forma basis.

Positioning & Strategy

Thomas Cook is the world's second largest leisure travel group with an extensive portfolio of market-leading travel brands across the key markets Europe, Eastern Europe and North America. Thomas Cook focusses consistently on four strategic elements: Maximising the value of mainstream travel, developing its positions as a leading independent travel provider and as a leading travel-related financial services provider and expansion to deliver growth.

MAXIMISE VALUE OF MAINSTREAM

Thomas Cook continued to maximise the value of mainstream package holidays. The integrated business model comprises transport, accommodation and distribution through both retail and online outlets. It gives flexibility to manage capacity and product mix allowing Thomas Cook to adapt to differing market conditions. Thomas Cook therefore has considerable flexibility giving it relative resilience in an economic downturn.

LEADING INDEPENDENT TRAVEL PROVIDER

Thomas Cook continued to develop its independent travel segment and strengthened its market position by adding incremental components in the area of bed banks, luxury travel and ticket wholesaling.

LEADING TRAVEL-RELATED FINANCIAL SERVICES PROVIDER

The third leg to the strategy is higher-margin travel-related financial services. By achieving world-wide control over the Thomas Cook brand, the tourism group has considerably enhanced the potential of this segment.

CAPTURE GROWTH AND VALUE THROUGH EXPANSION

Thomas Cook has made excellent progress in expanding through acquisition. The businesses acquired earlier in the year are all performing satisfactorily and the Group is generating synergies as planned. Thomas Cook continues to review opportunities for expansion with focus on those emerging markets where tourism is growing at a faster rate than in its traditional markets. Thomas Cook is particularly encouraged by the opportunities in Russia and China.

Segment performance

STRONG INCREASE IN EARNINGS

Thomas Cook Group plc reported a strong 2007/2008 financial year and exceeded market expectations. Sales of the tourism group, which presents its accounts in British Pound, were up 11.8 % against the previous year. Translated into euro, Thomas Cook posted sales of 11.38 bill. €. This equates to a decline of 3.2%.

Adjusted EBITDA (pro forma), consolidated in the Arcandor financial statements, increased by 200.1 mill. € against the previous year to 734.7 mill. € (534.6 mill. € in the previous year). The annual financial statements of the tourism company show adjusted earnings per share in local currency (pro forma) amounting to 24.1 pence. This equates to an increase of 40.9%. The EBIT margin was 4.2%, increased by 35.5% and lies significantly above comparable competition. The higher-than-expected synergies resulting from the MyTravel acquisition made a particular contribution to this. In addition, effective capacity management which resulted in a rigorous reduction in unprofitable sales increased the sales margin on a sustained basis. The significant earnings increase is all the more pleasing because it was achieved despite the additional negative impact of approximately 170 mill. € resulting from higher fuel costs.

Important events during the financial year

E-COMMERCE

The e-commerce platform Thomas Cook is an all-important distribution channel, which supports both its mainstream and independent travel segments. In October 2008, a new evolutionary e-commerce platform was launched, underlying the www.thomascook.com website. It is designed to uplift its online search by offering choice and flexibility, higher quality information, maps and imagery and functionality. In the UK, 27% of total bookings are now made online. The tourism group is achieving its greatest level of online bookings in Northern Europe where recent months have seen over 50% of bookings being made online.

CONDOR

Condor performed strongly in a challenging environment for airlines generally and, more specifically, in Germany where the industry is extremely competitive. Thomas Cook reduced capacity by 4.7%, including taking one aircraft out of its fleet. The book load factor increased by 2.4% to 89.2%. Thomas Cook withdrew from discussions with Deutsche Lufthansa and TUI Travel about a possible merger of Condor, Germanwings and TUIfly. Condor is operating as a strong and profitable business with significant potential on a stand-alone basis.

ACQUISITIONS

Thomas Cook has developed its mainstream business through several acquisitions and other initiatives during the period. Whilst Thomas Cook France already enjoys the position of being the country's largest retailer, the combination of its tour operating business with Jet Tours, premium tour operator, forms the country's third largest tour operator, with a combined market share of around 10%. The acquisition of 57 Neckermann Urlaubswelt retail outlets in Germany helps strengthen its German distribution.

The acquisition of Hotels4U.com, the UK's largest independent bed bank, enhanced the Group's independent travel offering considerably. Its acquisition of Elegant Resorts, the number one UK-based luxury travel company, supports its current expertise in high-value luxury holidays. By acquiring TriWestTravel (independent travel wholesaler and airline consolidator) Thomas Cook is creating a leading Canadian independent travel business.

In March 2008, Thomas Cook announced the acquisition of a majority stake in Thomas Cook India. With annual growth rates of 14 %, India is one of the fastest growing tourism markets. Thomas Cook also acquired a 100 % stake in branded business run under its name in Egypt and licenses for its brand in 15 Middle East countries. The Group thus controls the Thomas Cook brand worldwide.

MERGER SYNERGIES

By accelerating synergy delivery, Thomas Cook realised total savings of 142 mill. GBP in the 2008 pro forma period; the majority of the savings comes from the UK business. Looking forward the Group expects to deliver new synergy targets of 185 mill. GBP of savings by the end of the 2008/2009 financial year and a total of 215 mill. GBP of savings by 2009/2010. The new targets significantly exceed the original target of the equivalent of 155 mill. GBP by the year 2009/2010.

FUEL PRICE AND EXCHANGE RATE FLUCTUATIONS HEDGED

To secure protection against fluctuations of the fuel price, Thomas Cook hedges its fuel requirements in advance. Through a mixture of swaps and options, Thomas Cook avoided the worst of the high prices in the Summer of 2008. The Group is taking a similar cautious approach to future costs and its policy is to hedge fuel and foreign exchange between 12 and 18 months in advance of the expected expenditure. In line with this Thomas Cook has hedged 100 % of its fuel requirements for Winter 2008/2009 and 95 % for Summer 2009 as well as 98 % of its dollar and 96 % of its euro requirements for Winter 2008/2009 and Summer 2009.

DIVIDEND

The Board of Thomas Cook Group plc is recommending a final dividend of 6.5 pence per share which, when combined with the interim dividend of 3.25 pence paid on September 5, makes a total dividend for the year of 9.75 pence per share. Once approved, the final dividend will be payable on March 27, 2009. This is in line with the Group's policy to reach a pay-out of 40 % to 50 % of adjusted earnings by way of dividend.

SHARE BUYBACK

In March 2008, Thomas Cook launched a 290 mill. GBP (ca. 375 mill. €) share buyback program which concluded on October 9, 2008. Up to that date, a total of 120,059,117 shares were purchased at a total cost, excluding commission, of 289.9 mill. GBP. Of these shares, 55,426,756 were purchased from Arcandor AG, as a result of which Arcandor's holding in Thomas Cook is 52.82 %.

CHANGES TO THE BOARD OF DIRECTORS

Changes to the Board during the period include the appointment of **Jürgen Büser** as Group Chief Financial Officer from July 1, 2008. This followed the decision of **Ludger Heuberg** to step down from the Board for personal reasons. **Angus Porter** resigned from the Board on April 25, 2008. **Nigel Northridge** joined the Board as a non-Executive director with effect from August 1, 2008.

Manny Fontenla-Novoa, CEO at Thomas Cook Group plc, was appointed as a member of the Arcandor AG Management Board effective from April 23, 2008.

Outlook

Current trading is in line with expectations. A range of initiatives within Thomas Cook's power will positively impact the performance for the current financial year. The flexible business model allows to quickly adapt capacity and product mix to the booking situation. Furthermore, Thomas Cook has a tight cost discipline. It negotiates to ensure that accommodation costs are no higher than last year's level despite currency movements. The Group is also hedging fuel and foreign currency against extreme volatility. Overhead costs can be cut further should tougher market conditions prevail. Synergy targets have been increased for the year 2010 to a total of 215 mill. GBP with 185 mill. GBP expected by the end of the 2009 financial year.

The combination of the management team's long industry experience, a restructured market place, Thomas Cook's own initiatives and the fact that current trading is in line with expectations supports the tourism Group's confidence in its prospects for the full year. Thomas Cook is targeting further growth in margins in 2009 and 2010.

HOMESHOPPING is a growth market. Primondo generates 70 % of its sales in the growth areas e-commerce, teleshopping, international expansion and specialty mail order. We will continue to increase our involvement in these areas through organic growth and acquisitions.

PRIMONDO POSTS SUSTAINED GROWTH

PRIMONDO

What we have achieved

- Today, Primondo is Europe's leading homeshopping group – 70% of sales in growth areas
- Quelle realigned – turnaround achieved in German universal mail order business, driven by strong growth in e-commerce
- Strong expansion effort in Central and Eastern Europe
- Strong position in teleshopping (HSE24) growth market
- Specialty mail order portfolio consistently optimized
- Service Group restructured and strategic divestments completed
- "Pact for the Future" agreed

What is yet to be done

- Continue strong growth of e-commerce in German universal mail order business
- Push further growth in Central and Eastern Europe and Russia; expand market leadership
- Achieve positive cash flow in 2008/2009 financial year
- Further optimize back-office functions
- Streamline over-the-counter business

Key figures*

		01.10.2007 – 30.09.2008	01.10.2006 – 30.09.2007		Change
Sales (adjusted)	mill. €	**4,309.8**	**4,037.5**	in %	6.7
Earnings					
EBITDA (adjusted)	mill. €	**89.7**	**4.7**	in mill. €	**85.0**
EBITDA margin (adjusted)	*in %*	*2.1*	*0.1*	-	-
Full-time employees at the balance sheet date	number	**15,606**	**16,837**	in %	-7.3

* The figures have been adjusted. The adjustments relate to special factors and divestments.

Strategy and Positioning

Primondo is one of the leading European homeshopping groups. With its four business segments – Universal Mail Order Germany, Specialty Mail Order, International, and New Media – the company operates in 25 countries, employs over 20,000 employees, and serves approximately 23 million customers worldwide. To these customers, all the distribution channels of a modern supplier are available – 1,400 catalogs, approximately 100 Internet portals, the teleshopping channel HSE24, and shopping via mobile devices and in stationary shops.

Strategically, Primondo is rigorously targeting growth areas, particularly e-commerce and TV shopping, international expansion, and the expansion of specialty mail order. Currently, Primondo generates 70% of its sales in these growth areas; at the same time the share of sales held by the traditional catalog business in Universal Mail Order Germany has declined to approximately 30%. The planned future development of the sales share is based on a “3 x 50%” formula: In each case we are targeting a 50:50 weighting for the ratios universal mail order to specialty mail order, catalog business to e-commerce/TV-commerce, and international business to German sales.

UNIVERSAL MAIL ORDER GERMANY: QUELLE ACCELERATES FOCUS ON E-COMMERCE

In Universal Mail Order Germany, Primondo is concentrating on the market leader Quelle, which has a top position in numerous product groups. The Quelle brand has an awareness rate of almost 100%. The company is accelerating its realignment from a traditional catalog-based mail order company into a modern home-shopping provider with a focus on e-commerce. In this respect, Quelle is well positioned with regard to long-term consumer trends. According to a study carried out by Deutsche Bank Research, the share of mail order in German retail is set to grow to 13% by 2015, thus nearly doubling in comparison to 2007. The key growth drivers are the electronic distribution channels.

Since the beginning of 2007, the online shop quelle.de has been the third biggest in German e-commerce in terms of reach, behind the pure-play online providers eBay and amazon. The objective for the next few years is to become the leading Internet shopping center with an independent range and a comprehensive selection of brand products. All internal company workflows, processes and structures are consistently oriented to the strategic growth channel e-commerce.

INTERNATIONAL EXPANSION AND EXPANSION OF SPECIALTY MAIL ORDER

Quelle is the most successful homeshopping brand in Central and Eastern Europe. All ten subsidiaries are either No. 1 or No. 2 in the markets, and by far the leaders in e-commerce. In Poland, Romania, Russia, Hungary, Slovakia and the Czech Republic, Quelle is the market leader. As a young fashion brand, Quelle is at the same level as well-known brand providers in Central and Eastern Europe as well as in Russia. Quelle has thus created the right conditions to accelerate its expansion in these countries further. Outside this region, Quelle is also No. 1 in Switzerland and Austria.

With their product ranges, the 13 specialty mail order companies of the Primondo Specialty Group cover a selection of special customer and price sectors. Following the successful realignment, Primondo Specialty Group is focusing on three growth areas: “Premium”; “Golden Ager”; and “Communities”. In these three segments, which are supplemented by targeted acquisitions and joint ventures, Primondo is targeting growth inside and outside Germany.

GROWTH IN ATTRACTIVE TELESHOPPING MARKET

With the acquisition of HSE24 in 2007, Primondo became the No. 2 in the German teleshopping market. HSE24 broadcasts 24 hours a day, including 16 hours of live broadcasts to over 41 million households via cable and satellite in Germany, Austria and Switzerland. A new product policy, improved services and customer loyalty measures are resulting in high growth in the numbers of new customers.

Segment performance

CLEAR SALES GROWTH IN THE GROWTH AREAS

In the 2007/2008 financial year, the Primondo Group generated sales of 4.31 bill. €, an increase of 6.7% against the previous year (4.04 bill. €).

International business developed very successfully with sales growth of 21.5% to 605 mill. €. An excellent performance was posted in the Russian country company, with growth of over 80% against the previous year. By the end of 2009, Quelle Russia, with ongoing growth momentum, will develop into the largest country company outside Germany within the Primondo Group. In the mid-term, Primondo is targeting sales of 1 bill. € in Russia. A very pleasing business development is also being shown by the country companies in Central and Eastern Europe. With high growth rates, Quelle continued to expand its strong market position particularly in Romania, Poland, Estonia, the Czech Republic, Slovenia, and Slovakia.

HSE24 – since June 2007 a 100% subsidiary of the Primondo Group – has had the best financial year in the company's history. The teleshopping channel increased its sales by 14% to 349 mill. € and also generated large increases in its customer and market share. Numerous TV programs with Quelle offers contributed to this success, for example, regular presentations of Küchen-Quelle.

With a sales increase of 5.9% to 964 mill. €, **Specialty Mail Order** has continued on its profitable growth course. Good business development was posted particularly by the Walz Group, Vertbaudet, Planet Sports, Mirabeau, Bogner Homeshopping, and the TriStyle Group with the international specialty mail order companies Madeleine, Peter Hahn, and Atelier Goldner Schnitt.

In 2008, although **Quelle** Germany has shown a pleasing level of demand and a generally satisfactory performance, unsatisfactory 2007 Christmas retail business over the whole market influenced total sales considerably. In addition, the large increases in e-commerce did not fully compensate for the structurally declining sales in the traditional catalog and store business.

EARNINGS SHOW STRONG IMPROVEMENT

In the reporting year, Primondo improved adjusted EBITDA by 85 mill. € to 89.7 mill. €. Good international business, earnings increases at HSE24, and positive margin and cost reduction effects at Quelle and in the service sectors contributed significantly here.

As is normal practice for international competitors, Primondo now no longer reports fees from the sale of installment credit receivables in EBITDA but separately in the income statement. In the current financial year, these changes to financial reporting and measurement adjustments (changed accounting of catalog costs) resulted in a positive EBITDA effect of approximately 63 mill. € (45 mill. € in the previous year).

Important events during the financial year

QUELLE BENEFITS FROM E-COMMERCE

In the 2007/2008 financial year, for the first time ever, quelle.de received over a billion hits according to the Nielsen definition. Once again, with an increase of 21%, online demand considerably exceeded market growth of 12%. Over 60% of all new customers are now gained online, and 40% of all orders are made over the Internet. If the current growth momentum in e-commerce is maintained, in a few years Quelle will generate two thirds of its sales via e-commerce.

Owing to the continual increase in business volume transacted directly via the Internet, the trend is for a reduction in process costs and expenditure associated with gaining new customers. The new online-based business model is gradually resulting in higher profitability in comparison to traditional catalog-based sales. Nevertheless, big book, monthly and special catalogs will continue to have a firm place in a multichannel market presence. Rather than offering an all-round product range, the catalog will offer targeted selections, will give direct incentives to buy, and will also refer to the comprehensive online product range. The extension of the online product range is being accelerated; the number of articles which can be ordered will be extended from 700,000 at the end of the reporting year to one million in the 2008/2009 financial year. In the last two years, Quelle has integrated 20 well-known market providers and sales partners into its sales platform, for example Mexx, Tom Tailor, s.Oliver and Esprit. This is increasing the expertise and appeal of the range on offer at quelle.de. In a few years, Quelle expects to extend the share of articles from external partners on the online platform to approximately 50 %.

PRIMONDO STRENGTHENS SPECIALTY MAIL ORDER - REALIGNMENT CARRIED OUT SUCCESSFULLY

In March 2008, as planned, Promondo sold its specialty mail order company Mode & Preis Versandhandels GmbH, Lörrach, and its subsidiaries in Slovakia, Slovenia, the Czech Republic and Switzerland to Aurelius AG. This completes the realignment of the Specialty Mail Order portfolio announced at the beginning of 2007. All objectives have been achieved. Within twelve months, Primondo has disposed of five specialty mail order companies and focused specialty mail order on three growth segments: “Communities”; “Golden Ager”; and “Premium”.

As of October 1, 2007, the first acquisition in Specialty Mail Order was undertaken and a 100 % stake acquired in Planet Sports GmbH in Starnberg. In its first financial year as part of the Primondo Group, the leading e-commerce provider for board sports and street wear in Germany posted a good business performance.

The 17 specialty mail order brands of the Primondo Group are operational in 13 countries. Successful concepts are systematically being transferred to new markets, thus opening up further growth potential. During the reporting year, Hess Natur, the ethical clothing specialist previously only operating in German-speaking markets, was launched in the USA. In October 2008, Madeleine, the specialty mail order company specializing in high quality women’s fashion, sent out its first catalogs in Great Britain.

REORGANIZATION OF THE PRIMONDO SERVICE GROUP SUCCESSFULLY COMPLETED

During the reporting year, Primondo completed the reorganization and restructuring of the Service Group as scheduled, particularly in the logistics centers in Leipzig and Nuremberg and the customer centers in Berlin, Magdeburg and Cottbus. As a result, Primondo has a competitive infrastructure which enables it to offer all services in modern homeshopping that are both economically advantageous and of high quality, to internal and external clients.

"PACT FOR THE FUTURE" CREATED FOR THREE YEARS

In the context of a "Pact for the future", corporate management as well as trade union and employees' representatives have agreed on a cost reduction contribution from employees for three years. With the "Pact for the Future", a decisive step towards economic strengthening is being taken, bringing with it a consistent earnings and cash orientated direction of the segments. All levels of management in the company are also participating.

REORGANIZATION OF QUELLE AND PRIMONDO MANAGEMENT – CONTINUITY ENSURED

In September 2008, the Supervisory Board of Quelle GmbH appointed **Marc Sommer** as Chairman. He has taken over the role from **Dr. Thomas Middelhoff** and has retired from the Management Board of Quelle after approximately two and a half years. **Dr. Konrad Hilbers**, previously CFO of Primondo, has been confirmed as the new Managing Director of Quelle GmbH, having carried out this new role in a provisional capacity since early summer 2008. The Quelle Management is now made up of the two Managing Directors **Dr. Konrad Hilbers** and **Henning Koopmann**.

The new CFO of the Primondo Group, and successor of **Dr. Konrad Hilbers**, is **Sascha Bopp**, who until now has been Managing Director of the Primondo Specialty Group together with **Leo-Günther Kraftsik**. **Matthias Siekmann**, who has been Head of Business Development for the past few years, has been appointed as another Managing Director of the Specialty Group.

Outlook

In the 2008/2009 financial year, Primondo will secure its turnaround, further increase sales and earnings, and generate a positive cash flow. In detail, organic growth in the strategic growth areas will be accelerated and international expansion in Central and Eastern Europe and the expansion of e-commerce will be strengthened. Quelle Germany will continue with the strategy on which it has embarked and will rigorously drive forward the realignment into a leading internet shopping center. Primondo is also examining acquisitions as a strategic option to optimize the portfolio further. In addition, as a leading provider, Primondo will play an active role in consolidating the European homeshopping market. In Central and Eastern Europe, following a successful trial period, the Ukraine looks likely to be another promising market launch. In addition, Quelle will extend its presence in the whole region.

IN OVER-THE-COUNTER RETAIL we were unable to achieve our sales and earnings targets in a difficult market environment. This needs to be corrected. Strategically, the realignment of the business model to trading up has largely been completed. We are now concentrating on strengthening sales, creating an efficient cost structure, and streamlining the administrative headquarters.

KARSTADT FOCUSES ON TRADING UP AND CASH FLOW

KARSTADT

What we have achieved

- Karstadt is the leading German department store
- Realignment of business model (trading up) has advanced significantly
- Product ranges focused, service improved considerably, interior design of department stores upgraded
- Attractive new openings (e.g. Hamburg, Munich, Essen and Duisburg)
- “Pact for the Future” agreed

What is yet to be done

- Achieve sustained positive earnings and positive cash flow
- Improve cost structure – continue implementing efficiency program
- Streamlining at headquarters
- Consistent sales orientation in all processes and systems

Key figures*

		01.10.2007 – 30.09.2008	01.10.2006 – 30.09.2007		Change
Sales (adjusted)					
Core department stores	mill. €	3,423.2	3,548.7	in %	-3.5
Karstadt sports	mill. €	247.8	251.1	in %	-1.3
Segment total [1)]	mill. €	**4,095.1**	**4,238.2**	in %	-3.4
Earnings					
EBITDA (adjusted)	mill. €	**-4.2**	**147.7**	in mill. €	**-151.9**
EBITDA margin (adjusted)	*in %*	*-0.1*	*3.5*	-	-
Full-time employees at the balance sheet date	number	**23,195**	**24,304**	in %	-4.6

* The figures have been adjusted. The adjustments apply to special factors and divestments as well as restructuring expenses in EBITDA.
1) Including Karstadt fine food and LeBuffet.

Strategy and Positioning

KARSTADT FOCUS ON TRADING UP AND COST REDUCTIONS

The realignment of the business model towards trading up is largely implemented. In the highly competitive German retail market, Karstadt defended its leading position in the department store segment. However, Karstadt did not achieve its sales and earnings targets in the 2007/2008 financial year, despite the rigorous implementation of the trading-up strategy.

Decisive here was not only the difficult situation on the market, but also inappropriate cost items and excessive inventories. It was for this reason that there were several changes in the management team in 2008. The new management team reacted immediately to these shortfalls with a comprehensive efficiency program. The aim of this program is to strengthen sales, reduce costs and trim staff at administrative headquarters.

The Karstadt business model comprises four sales units: The Premium Group (e.g. KaDeWe Berlin, Alsterhaus Hamburg), department stores under the Karstadt brand, Karstadt sports (Karstadt sports stores) and karstadt.de (online shopping) operate with a clear and customer-focused market presence. In the financial year, Karstadt pushed the focus on higher-margin product ranges, particularly in the fashion area by establishing further brand shops, both with leading brands from manufacturers and its own exclusive brands.

We continued the implementation of category management as a further element of the realignment. With holistic, demand-oriented planning, the best possible product range is determined in the individual consumer areas.

Other information

		30.09.2008	30.09.2007
Branches			
Premium	number	4	4
Karstadt			
Boulevard Plus	number	72	62
Boulevard	number	15	25
Department stores	number	**91**	**91**
Karstadt sports	number	28	28
Project branches	number	8	10
Total	number	**127**	**129**
Sales space			
Group-operated space	th. sq. m.	**1,570.3**	**1,600.8**

Segment performance

EARNINGS NEGATIVELY IMPACTED BY MUTED CONSUMER SENTIMENT AND INCREASED COST BASE

In the 2007/2008 financial year, Karstadt department stores and sports stores generated adjusted sales totaling 4.10 bill. € (previous year: 4.24 bill. €). The 3.4% sales downturn can be seen primarily against a backdrop of restrained consumer sentiment in Germany. However, it must be taken into account that as a result of large-scale store conversions (approximately 3% of the sales space) temporary falls in sales were posted and by deliberately discontinuing sales space unprofitable sales (for example in the book area) were relinquished on a sustained basis.

During the past financial year, adjusted EBITDA of Karstadt department stores and sports stores amounted to minus 4.2 mill. € (147.7 mill. € in the previous year). This worsened earnings in comparison to the previous year by 151.9 mill. €. The weak 2007 Christmas period, generally muted consumer sentiment and the strong upturn in costs were key factors.

CONCENTRATION ON HIGH-MARGIN CONSUMER AREAS

Karstadt's main objectives in all consumer areas are category management suitable for the target group and up-market presentation of goods. Similarly, the product range is being streamlined by focusing on strong margin product range components on the basis of a clear price and brand structure as well as a sustained supplier concentration. Thus the focus of range policy is the profiling and core ranges in line with customer requirements. These product ranges, where Karstadt has traditionally had a high level of expertise, have been vigorously optimized and extended. In addition, the share of brands generating strong demand has been significantly extended.

In the largest consumer segment, **Fashion**, the expansion of important manufacturer brands and the resulting implementation of 845 brand shops (for example, Gerry Weber, Mac, Brax, Basler, Tom Tailor) consistently increased fashion expertise. This strategy is also being continued in the current year. The focus is now particularly on a mix of high-profile manufacturer brands and high-yield own brands (exclusive in-house brands). Sales declined by 1.9% to 1.84 bill. € due to transferring floor space to brand manufacturers and as a result of the difficult environment. The classic fashion area (men's, women's and kids' world) generated sales of 1.35 bill. € (previous year: 1.38 bill. €). The beauty and accessories areas achieved sales of 493 mill. € (previous year: 502 mill. €). The areas of jewelry and fragrances improved in comparison to the previous year.

The **Home und Entertainment** consumer segment covers the Living, Leisure and Multimedia areas. This area generated sales of 1.40 bill. €. The 5.5% decline is a result of the targeted floor space reduction by 8.6%. In the Home consumer segment, category management was implemented with a topic-oriented presentation of goods focusing on higher-margin profiling and core ranges. Lower-margin product ranges were increasingly scaled back. In the Entertainment segment, space productivity was increased by targeted streamlining of the product ranges. In the context of a new specialty store concept, services and consulting were extended. In order to increase brand expertise, brand shops were established in 30 branches in the last financial year.

Karstadt sports expanded the Fashion and Lifestyle areas product range. With a sales downturn of 1.3% to 247.8 mill. € in the Karstadt sports stores, the development in the last financial year was slightly below expectations. The sales downturn resulted particularly from the low demand for winter sports articles caused by the mild winter in the first two quarters of the financial year. In the second half of the financial year, an attractive product range and the repositioning of the five largest sports stores (Hamburg Mönckebergstraße, Oberpollinger Munich, Hanover, Bremen and Berlin) led to improved development.

Important events during the financial year

EFFICIENCY PROGRAM STARTED

On August 1, 2008, due to Karstadt Warenhaus GmbH's unsatisfactory earnings trend, the new management team started a comprehensive efficiency program to relieve the cost structure considerably. The target includes trimming management staff, a considerable reduction in costs and realigning purchasing, linked with concentrating the supplier base. Parallel to this, optimizing the marketing mix and reducing logistics and IT costs were pursued. The efficiency program also comprises the cutback of 334 full-time positions at Karstadt headquarters. To optimize structures, this includes trimming the management team and concentrating staff functions.

Additionally, in the context of a "Pact for the Future", corporate management as well as trade union and employees' representatives have agreed on a cost reduction contribution from employees for three years. With the "Pact for the Future", a decisive step towards economic strengthening is being taken, bringing with it a consistent earnings and cash-orientated direction of the segments. All levels of management in the company are also participating.

TWO NEW STORES: ESSEN LIMBECKER PLATZ AND DUISBURG FORUM

In the past financial year, Karstadt strengthened its branch network with two new stores. In March 2008, Karstadt opened a modern department store in Essen's Limbecker Platz shopping center with 20,000 sq. m. of floor space. In September 2008, a new Karstadt department store was opened in Duisburg's Forum shopping mall with approximately 15,000 sq. m. of sales space. These two new stores improved Karstadt's market position in the Rhine Ruhr conurbation. Also, since September 2008 the three-year full renovation of the largest Karstadt store in Hamburg, the Mönckebergstraße branch, has been completed. On 31,700 sq. m. of sales space, Karstadt presents a new shopping experience, thus strengthening its market position in the cosmopolitan city of Hamburg. Also, larger-scale conversion work with new sales space and product range layouts was completed in 19 other branches.

NEW LUXURY BOULEVARD IN OBERPOLLINGER

Conversion of the premium location in Oberpollinger, Munich, was also completed. Since the beginning of December 2008, top luxury brands – such as Gucci, Prada and Louis Vuitton – have been presented on the ground floor with their own shops and make Oberpollinger the number one address for shopping.

WELTBILD AND HUGENDUBEL OPERATE 19 BOOK DEPARTMENTS

After the approval of the acquisition of the Karstadt book departments by DBH Buch Handels GmbH & Co. KG (joint venture of Hugendubel and Weltbild), 19 book departments have already been converted in the past financial year. More are to follow in Spring 2009. At those locations where no transfer of the book business to DBH was possible due to antitrust reasons, Karstadt will continue to operate its own book shops.

NEW MANAGEMENT

Stefan W. Herzberg became Chairman of the Management Board on August 1, 2008. He will advance the strategic and operating realignment of Karstadt. Also on August 1, 2008, **Dr. Thomas Toepfer**, previously head of Group Controlling at Arcandor AG, took responsibility for the Finances area in the Karstadt Management Board. In the course of the realignment of the company and the related split within purchasing, **Marco Schöner**, previously head of Purchasing Hardware, is responsible in the management team for the new Purchasing Hardware area since August 1, 2008. Since mid-October 2008, **Andreas Weuster** is responsible in the Management Board for Purchasing Fashion. Weuster used to be on the Purchasing Management Board for the Belgian chain of department stores, Inno.

The management team at Karstadt Warenhaus GmbH is now as follows: **Stefan W. Herzberg** (CEO), Dr. **Thomas Toepfer** (CFO), **Dr. Emmanuel Siregar** (Human Resources and Organization), **Marco Schöner** (Purchasing Hardware) and **Andreas Weuster** (Purchasing Fashion).

Stefan W. Herzberg, CEO of Karstadt Warenhaus GmbH, was appointed as a member of the Arcandor Management Board effective from December 1, 2008.

Outlook

RIGOROUS IMPLEMENTATION OF THE EFFICIENCY PROGRAM

The rigorous implementation of the efficiency program is the focus of all activities of the new management. All processes, projects, and tasks should have a positive effect on sales. In addition, the trading-up strategy will be further consolidated. Priority is being given to strategic elements which offer customers genuine added value, at the same time generating a direct impact on sales and profits. Examples include extending the specialist qualifications of sales staff.

THE ARCANDOR SHARE

Key figures Arcandor share

		30.09.2008	30.09.2007[2]	Change in %
Earnings				
Earnings per share	€	-3.35	0.13	-
Dividends				
Dividend per no-par value share	€	0.00	0.00	0.0
Subscribed capital				
Subscribed capital	mill. €	574.7	551.1	4.3
Individual no-par value shares on the reporting date	number in mill.	230.2	221.0	4.2
Share price information				
Share price on the reporting date	€	2.33	23.48	-90.1
Highest price	€	23.21	29.21	-20.5
Lowest price	€	1.87	17.96	-89.6
Market capitalization on the reporting date [1]	mill. €	536.4	5,188.4	-89.7
Stock exchange sales (average daily retail volume)	number of shares in th.	1,468	840	74.8
Beta 250 on the reporting date		1.1220	0.8480	-

[1] Including own no-par value shares.
[2] 9-month short financial year.

SHARE PRICE PERFORMANCE

In the 2007/2008 financial year, the performance of the Arcandor share was particularly affected by the crisis on international financial markets. Pessimistic economic estimates and increasing danger of recession as a result of the banking and financial crisis led to an increasingly negative sentiment on the stock market and declining expectations for retail and tourism stocks. Further negative factors were errors in communication and the poor performance of Karstadt to the middle of 2008. The highest share price of 23.21 € at the beginning of the financial year was followed by a significant decline to 2.33 € as of the reporting date. The share price falls, particularly those to the end of the financial year, were the result of necessary refinancing talks taking place at that time. These were made more difficult by the deep uncertainty in the international banking and finance sectors. At the end of September 2008, financing for the Arcandor Group was successfully secured.

Market capitalization (including Treasury stock) reached a figure of 536.4 mill. € on September 30, 2008.

Price performance in € (01.10.2007–30.09.2008)

from the period between October 1, 2007and September 30, 2008

SAL. OPPENHEIM NEW MAJOR SHAREHOLDER AT ARCANDOR

In the wake of the successful financing talks at the end of the financial year, Bankhaus Sal. Oppenheim became a new major Arcandor shareholder in the context of a capital increase. With the capital increase, the number of shares issued rose by 23,020,552 to 253,226,080 as at October 23, 2008. As a result, the Group's equity base was strengthened. Sal. Oppenheim's commitment is a clear signal of confidence in the future of the company.

At the beginning of December 2008, Bankhaus Sal. Oppenheim and the "Madeleine Schickedanz" pool are now Arcandor AG's principal shareholders with stakes of 28.59 % and 26.74 % respectively (based on notifications in line with the German Securities Trading Act). Arcandor holds 5.7 mill. own shares, which is 2.25 % of the total number of shares. The free float is 42.42 %. In November 2008, Janus Capital (Denver) and Julius Bär (Zürich/New York) had a stake over the threshold of 3 %.

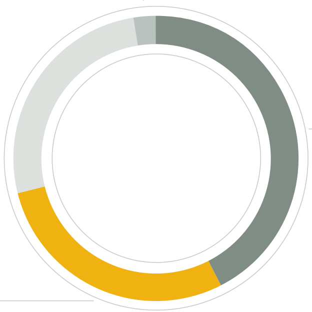
Development of holdings of major shareholders

	Pool „Madeleine Schickedanz"		Sal. Oppenheim		Total number of
Date	Number of shares	Holdings	Number of shares	Holdings	Arcandor shares
28.09.2008 *	79,527,108	34.55 %			230,205,528
01.10.2008 *			36,716,900	15.95 %	230,205,528
17.10.2008 *	66,866,108	29.05 %	49,377,900	21.45 %	230,205,528
23.10.2008 *			72,398,452	28.59 %	253,226,080[1)]

* Based on voting rights announcement according to Section 21 WpHG (German Securities Trading Act).

1) Total number of Arcandor shares after the entry of the capital increase into the Commercial Register.

Shareholder structure according to WpHG (German Securities Trading Act)



According to notices issued under Section 15 a WpHG, during the period from November 17 to November 21, 2008, Mrs. Madeleine Schickedanz acquired a total of 843,559 Arcandor shares (cf. Directors' Dealings notices, page 68). In view of this purchase, Arcandor AG assumes that the proportion of stocks of the "Madeleine Schickedanz" pool now total 26.74 % (67,709,667 shares, from a total number of shares of 253,226,080).

WEIGHT IN MDAX

Arcandor shares are represented in a number of indices. At the end of September 2008, Arcandor was weighted with 0.42 % in the MDAX.

In the reporting period, the average daily volume of Arcandor shares traded on the German stock exchanges increased by 76 % to approximately 1.47 mill. shares. As a result, the shares are highly liquid. The most important trading platform is the Xetra electronic exchange.

General information about the Arcandor share

Securities code number	627 500
International Securities Identification Number (ISIN)	DE 0006275001
Reuters code	AROG.DE
Bloomberg code	ARO GR
Weight in the MDAX (as at 30.09.2008)	0.42 %

Investor Relations

COMMUNICATING IN A CHALLENGING CAPITAL MARKET ENVIRONMENT

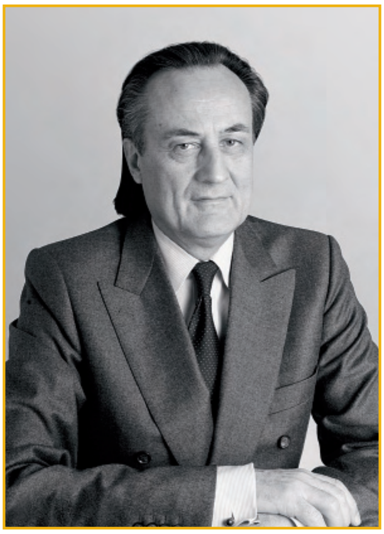
Against the backdrop of a challenging capital market environment, we have continued to communicate and converse with all target groups intensively in the 2007/2008 financial year. At the international investor conferences of Dresdner Kleinwort in New York, JP Morgan in London, Deutsche Bank and Cheuvreux Calyon both in Frankfurt/Main and Bank am Bellevue in Zurich as well as numerous roadshows in the important financial centers, the management further intensified direct contact with institutional investors and buy-side analysts.

In addition to our analysts meeting in Düsseldorf, we provided investors and analysts with information in telephone conferences and numerous one-on-one meetings. To demonstrate our operational business, we organized for example a field trip in March 2008 to our newly opened Karstadt department store at Limbecker Platz in Essen.

At the Annual General Meeting in April 2008 in Düsseldorf, we provided extensive information to our shareholders on the 2007 short financial year and our further development. We again presented our Group to interested private investors at the Aktienforen der Deutschen Schutzvereinigung für Wertpapierbesitz (DSW).

Market rumors and press speculation represented a particular challenge in the reporting year. Along with the ongoing Arcandor share price drops these led to a significantly higher requirement for communication. As a result, inquiries from private investors in particular have increased many times over.

Our website www.arcandor.com represents an important source of information for all capital market participants. Under Investor Relations, an extensive range of financial reports, releases, presentations, share figures, details on the Annual General Meeting and Corporate Governance, and an e-mail newsletter service are available. Our information service for mobile devices is a new addition. Since August 2008, up-to-date information about Arcandor AG can be accessed via the internet address http://mobile.arcandor.com/.



Friedrich Carl Janssen
Chairman

REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

In this report, the Supervisory Board of Arcandor informs you about its activities during the 2007/2008 financial year (October 1, 2007 to September 30, 2008).

EMPHASIS OF THE SUPERVISORY BOARD'S ACTIVITY

The emphasis of the Supervisory Board work was consultation and passing resolutions on the following issues:

- Sale of Arcandor's 49 % stake in the Highstreet real estate portfolio (made up largely from the Karstadt Department Store real estate portfolio)
- Thomas Cook Group plc strategy after inclusion in the FTSE 100 of the UK stock exchange
- Refinancing the Arcandor Group by issuing an exchangeable bond on part of the Thomas Cook Group plc shares held by Arcandor AG
- New refinancing concept utilizing Authorized Capital I pursuant to Article 4 (9) of the articles of incorporation
- Consultation on the management of Karstadt Warenhaus GmbH
- The transfer of all shares in neckermann.de GmbH to a new company to be founded and the subsequent sale of 51% of shares in this company to SUN Capital Partners Group V, Inc.

It also discussed other matters such as corporate governance, the annual financial statements, the consolidated annual financial statements, the dependent companies report and the work of the committees.

During the 2007/2008 financial year, the Supervisory Board of Arcandor AG discharged its duties as required by law and the articles of incorporation, examined the annual financial statements and the dependent companies report and continuously monitored and supported the managerial activity of the Management Board. In an advisory capacity, the Supervisory Board constructively guided, supported and monitored the implementation of the Group realignment, with particular attention being devoted to the changing Group structure resulting from the purchase of the stake in Thomas Cook Group plc and measures to secure Group financing. The Management Board regularly kept the Supervisory Board fully informed both orally and in writing.

MEETINGS, OBJECT AND METHODS OF THE EXAMINATION BY THE SUPERVISORY BOARD

At 13 Supervisory Board meetings, four of which took the form of conference calls, and in the context of a written resolution, the Supervisory Board was kept informed by the Management Board about all important questions of planning, business performance, the risk situation and risk management, the economic situation and business policy.

The Chairman of the Supervisory Board maintained close contact with the Chairman of the Management Board. Information was regularly exchanged at regular monthly meetings and over the telephone. The Supervisory Board was then given a full report on the content of these exchanges.

The Supervisory Board was kept informed about the state of business and important business transactions and the plans and resolutions of the Management Board at all times. Between meetings the Supervisory Board was also kept fully informed about all projects of especial importance for the company by written report. For example, it was informed in writing in advance on interim reports, press conferences and on press releases relating to members of the Management Board, on the acquisition of Arcandor AG shares by persons charged with management functions, on content presented at analyst conferences and on resolutions of the Supervisory Board of Karstadt Warenhaus GmbH.

Furthermore, the Management Board informed the Supervisory Board about the most important key financial ratios by regularly reports and duly submitted to it for resolution matters requiring approval. Members of the Supervisory Board were sent in advance comprehensive documents summarizing the main points of the matters requiring resolution.

Approval was particularly required during the financial year for:

- The transfer of all shares in neckermann.de GmbH to a new company to be founded and the subsequent sale of 51 % of shares in this company to SUN Capital Partners Group V, Inc., Boca Raton, Florida (USA) (meeting of the Supervisory Board on November 28, 2007).
- Sale of Arcandor's 49 % stake in the Highstreet real estate portfolio to RREEF, Pirelli & C Real Estate S.p.A., Borletti Group Management S.A. and Generali Real Estate Fund S.A. (meeting of the Supervisory Board on March 6, 2008).
- The sale of KarstadtQuelle Information Services GmbH (meeting of the Supervisory Board on June 11, 2008).
- Realignment of KarstadtQuelle Finanz Service GmbH (joint venture with ERGO Versicherungsgruppe AG) (meeting of the Supervisory Board on June 11, 2008).
- The exchangeable bond based on parts of the shares in Thomas Cook Group plc held by Arcandor AG (meeting of the Supervisory Board on June 23, 2008).
- Refinancing the Company by means of various measures (including the utilization of the Authorized Capital I pursuant to Article 4 (9) of the articles of incorporation (meeting of the Supervisory Board on September 28, 2008).

At its meetings, it examined in detail and discussed proposals put forward by the Management Board and granted them all necessary approvals.

Unless specifically stated in this report, the Supervisory Board carried out its controlling activity by receiving, examining independently and discussing oral and written reports from the Management Board, employees and external auditors and consultants.

At nine of its meetings, the Supervisory Board discussed in detail the business performance, corporate planning and strategy, as well as the financial and liquidity situation of the Arcandor Group. Key points of the meetings were the implementation of the restructuring program, the realignment of the Group and measures to secure its financing. To prepare for these meetings, members of the Supervisory Board were sent comprehensive documents in due time summarizing the main points of the matters requiring resolution.

The following topic areas dealt with at Supervisory Board meetings should be mentioned:

- The transfer of all shares in neckermann.de GmbH to a new company to be founded and the subsequent sale of 51% of shares in this company to SUN Capital Partners Group V, Inc., Boca Raton, Florida (USA) (on November 28, 2007).
- Intensive discussion of the strategy of Thomas Cook Group plc following admission to the FTSE 100 of the UK stock exchange and presentation of the various growth initiatives (on December 14, 2007 and March 12, 2008).
- Sale of Arcandor's 49% stake in the Highstreet real estate portfolio to RREEF, Pirelli & C Real Estate S.p.A., Borletti Group Management S.A. and Generali Real Estate Fund S.A. (on 14 December 2007 and March 6, 2008). In its meeting on December 14, 2007, the Standing Committee examined key points of the agreement and, after a thorough examination, recommended that the Supervisory Board grant its approval.
- The sale of KarstadtQuelle Information Services GmbH (on June 11, 2008).
- Realignment of KarstadtQuelle Finanz Service GmbH (joint venture with ERGO Versicherungsgruppe AG) (on June 11, 2008).
- The approval of the issue of an exchangeable bond in the amount of up to 500 mill. € based on part of the shares held by Arcandor AG in Thomas Cook Group plc (on June 23, 2008).
- Refinancing the Company by means of various measures (including the utilization of the Authorized Capital I pursuant to Article 4 (9) of the articles of incorporation (on September 28, 2008).
- Status report on the cooperation with Li & Fung (on March 12, 2008).
- Report on the consolidation of the department store market with a view to internationalization (on April 17, 2008).
- Presentation of the "Diversity" project aimed at utilizing the wide-ranging skills and characteristics of our employee base in accordance with the spirit of our corporate goals and to the benefit of those involved (on December 14, 2007).
- Formation of the Nomination Committee (on December 14, 2007).
- Change to the rules of procedure of the Supervisory Board on the implementation of the current Corporate Governance Code (on January 16, 2008).

- Strategic options for the further development of the Group, such as strengthening the growth areas specialty mail order, international mail order, e-commerce, higher-value department stores as well as streamlining the portfolio of low-growth and low-earning segments (at the meetings of November 28, 2007, December 14, 2007, January 16, 2008, March 12, 2008, April 17, 2008, June 11, 2008 and September 15, 2008).

Except for one member, who did not attend for reasons of sickness, all members of the Supervisory Board attended at least half of the Supervisory Board meetings in 2007/2008 during their period of membership.

Following the efficiency audit of the Supervisory Board conducted by external consultants, the Supervisory Board implemented a self-evaluation in the form of a questionnaire-based efficiency audit. The results were discussed in detail at the meeting on December 14, 2007. One result was agreement on holding more frequent preliminary discussions among the shareholders’ representatives.

CORPORATE GOVERNANCE

At its meetings, the Supervisory Board discussed the German Corporate Governance Code and approved its realization in the Arcandor Group. Corporate Governance will be examined at regular intervals and developed further.

On December 11, 2008, the Management Board and Supervisory Board updated the Declaration of Compliance issued in accordance with the German Corporate Governance Code. In it they declared their compliance, since the last Declaration of Compliance on January 16, 2008, with all recommendations of the German Corporate Governance Code in the version of June 14, 2007, with the exception of the retention in the case of the D & O insurance (Code Subsection 3.8 Paragraph 2). They furthermore declared that they will comply with all the recommendations of the German Corporate Governance Code in the version of June 6, 2008, with the exception of the retention in the case of the D & O insurance (Code Subsection 3.8 Paragraph 2) and the resolution responsibility of the plenary sessions of the Supervisory Board relating to the remuneration system for the Management Board (Code section 4.2.2 (1)). This Declaration of Compliance has been made continuously accessible to shareholders on the company’s website, together with earlier Declarations of Compliance. Further information on Corporate Governance at Arcandor is given in the joint report of the Management Board and Supervisory Board on pages 57 to 60 of this Annual Report.

There were no conflicts of interests for members of the Supervisory Board.

WORK AND MEETINGS OF THE COMMITTEES

The Supervisory Board set up a Standing Committee, an Audit Committee and an Arbitration Committee (in accordance with Section 27 of the Codetermination Act). In addition, it established a Nomination Committee at its meeting on December 14, 2007. In individual cases the Supervisory Board's powers of decision were transferred to the committees. For the current constitution of the committees and their respective chairpersons, please see the list on page 56. The meetings, the work and in particular the resolutions of the committees were reported on in detail at the plenary meetings.

- In the reporting period, the Standing Committee met six times, on September 17, 2007, December 14, 2007, January 16, 2008, March 12, 2008, April 8, 2008 and September 15, 2008. It discussed mainly Management Board matters, including the structure and amount of the remuneration. It prepared the Supervisory Board's respective resolutions on Management Board matters and made recommendations to the plenary Supervisory Board, in particular on the extension of the Chairman of the Management Board contract with Dr. Thomas Middelhoff. In particular, the Standing Committee prepared the resolutions of the Supervisory Board described above on the sale of Arcandor's share in the Highstreet real estate portfolio and on the consolidation of the department store market.
- In the reporting period, the Audit Committee met six times, on November 28, 2007, January 16, 2008, February 11, 2008, May 9, 2008, August 11, 2008 and December 8, 2008. In the presence of the auditor and the Management Board, it discussed the annual statement of Arcandor AG, the consolidated statement, the management reports, the proposal for the appropriation of the profit and the dependent companies report. It also analyzed and approved the quarterly reports, issued the audit instruction to the auditor, laid down the main points of the audit, agreed on the fee and monitored the impartiality of the auditor. The Audit Committee also kept itself informed about risk management and its further development in the company. Finally, the Audit Committee audited the efficiency of its own activity and refined the regulations for its future work as well as reporting by the Management Board.
- In its meeting on March 6, 2008, the Nomination Committee prepared the election of the shareholders' representatives at the Annual General Meeting on April 23, 2008.
- There was no occasion for the Arbitration Committee to meet.

The committees' methods of examination were identical to those applied in the plenary meetings. The committee chairpersons in the plenary meetings reported fully on the committee meetings and the work of the committees.

ANNUAL STATEMENT, CONSOLIDATED STATEMENT AND DEPENDENT COMPANIES REPORT

The BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, audited the annual statement for the 2007/2008 financial year, the management report of Arcandor AG, the consolidated statement in line with IFRS, the consolidated management report as well as the dependent companies report in accordance with a resolution of the Annual General Meeting of April 23, 2008, and gave each of them its unqualified approval. The Audit Committee of the Supervisory Board had issued the audit instruction on May 9, 2008 in accordance with the resolution of the Annual General Meeting.

The annual statement and management report of Arcandor AG, the consolidated statement, the consolidated management report, the audit reports of BDO and the proposal for the appropriation of the profits were duly submitted to all the members of the Supervisory Board.

In its meeting on December 8, 2008, the Audit Committee conducted a preliminary examination of the above statements, the associated management reports and the audit reports, and the proposal for the appropriation of the profits. These documents were discussed in detail at the meeting of the Supervisory Board on December 11, 2008. The auditor was also present at this meeting, reported on the most significant results of his audit and answered questions put to him by members of the Supervisory Board. The Supervisory Board examined the documents and found them to be complete, orderly and plausible. In particular it provided its support to the proposal that no dividend be paid for the 2007/2008 financial year due to the restructuring of the Group. In accordance with the findings of its own examination, the Supervisory Board has no objections and approves the auditor's findings. At its meeting on December 11, 2008, the Supervisory Board approved the accounts of the 2007/2008 financial year of Arcandor AG and the Group prepared by the Management Board for the period ending September 30, 2008; the annual financial statements of Arcandor AG has therefore been adopted.

The Management Board also submitted to the Supervisory Board the report on relations with associated companies prepared by the Management Board pursuant to Section 312 of the German Stock Corporation Act (dependent companies report) and given an unqualified auditor's opinion, the annual account records and the auditor's report. The auditor reported on the findings of his audit at the Supervisory Board meeting on December 11, 2008, and after intensive discussion answered all the Board's questions in detail. In accordance with the findings of its own examination, the Supervisory Board finds no cause for objection in the Management Board's concluding remarks in its report pursuant to Section 312 of the German Stock Corporation Act and approves the auditor's findings.

AUDITOR'S OPINION OF THE DEPENDENT COMPANIES REPORT

The auditor's opinion of the Management Board's report on relations between Arcandor AG and the associated companies is as follows:

We know of no circumstances which under Section 313 Paragraph 4 of the German Stock Corporation Act might have given cause to qualify or refuse an auditor's opinion. In accordance with the final result of our audit, no objections are to be raised to the dependent companies report. We issue the following unqualified auditor's opinion pursuant to Section 313 Paragraph 3 of the German Stock Corporation Act:

> "We have duly audited and assessed the dependent companies report and confirm that the factual information given in it is correct."
>
> Düsseldorf, November 30, 2008
> BDO Deutsche Warentreuhand
> Aktiengesellschaft
> Wirtschaftsprüfungsgesellschaft
>
> Dyckerhoff (Public auditor) Rauscher (Public auditor)

CHANGES TO SUPERVISORY BOARD AND MANAGEMENT BOARD

The following changes in the **composition of the Supervisory Board** occurred during the 2007/2008 financial year:

Mr. **Holger Lampatz** resigned from his Supervisory Board position effective at the close of **October 31, 2007** for personal reasons.

In a ruling on **December 12, 2007** the District Court of Essen appointed **Prof. Dr. Karlheinz Hornung** as a member of the Supervisory Board to represent the shareholders.

Mr. **Franz Lajosbanyai** resigned from the Supervisory Board on **March 27, 2008** when the agreement to sell 51% of the shares in neckermann.de GmbH to SUN Capital was signed. The District Court of Essen on **April 2, 2008** appointed Mr. **Hellmut Patzelt** as his successor on the Supervisory Board.

The term of office of the Supervisory Board members officiating at this date expired at the end of the Annual General Meeting on **April 23, 2008**. The following stepped down from the previous Supervisory Board after the close of the Annual General Meeting on April 23, 2008: Ms. **Rita Rodenbücher** and Messrs. **Wilfried Behrens**, **Dr. Diethart Breipohl**, **Bodo Dehn**, **Peter Kalow**, **Wolfgang Pokriefke** and **Werner Wild**.

The Annual General Meeting on **April 23, 2008** elected the following on the new Supervisory Board, effective as of **April 23, 2008**: Messrs. **Hero Brahms**, **Udo Behrenwaldt**, **Prof. Dr. Utho Creusen**, **Leo Herl**, **Ulrich Hocker**, **Prof. Dr. Karlheinz Hornung**, **Dr. Hans Reischl**, **Juergen Schreiber**, **Michael Stammler** and **Dr. Klaus Zumwinkel**.

The following were elected as employees' representatives on the new Supervisory Board in the election held in compliance with statutory codetermination provisions, effective **April 23, 2008**: **Andrea Beslmeisl**, **Peter Erb, Rüdiger Merz**, **Margret Mönig-Raane**, **Hellmut Patzelt**, **Wilfried Reinhard, Christa Schubert**, **Ernst Sindel**, **Walter Strasheim-Weitz** and **Gertrud Tippel-Kluth**.

On **April 23, 2008**, the Supervisory Board established itself in its meeting immediately following the close of the Annual General Meeting and elected the Chairman (Hero Brahms), Deputy Chairman (Hellmut Patzelt) and committee members.

Effective at the close of **October 31, 2008**, Mr. **Hero Brahms** and Mr. **Juergen Schreiber** resigned their positions as members of the Supervisory Board for personal reasons. On **November 9, 2008**, the District Court of Essen appointed Mr. **Friedrich Carl Janssen** and **Dr. Hans-Jochem Lüer** as members of the Supervisory Board to represent the shareholders. In its meeting on **November 13, 2008**, the Supervisory Board elected Mr. **Friedrich Carl Janssen** as its Chairman.

The following changes occurred in the **composition of the Management Board**:

The contract of Supervisory Board Chairman **Dr. Thomas Middelhoff** was extended by one year to December 31, 2009. Mr. **Marc Sommer** was appointed as Deputy Chairman effective **April 23, 2008**. Also effective April 23, 2008, Mr. **Manny Fontenla-Novoa** was appointed as a member of the Management Board of Arcandor AG.

Mr. **Peter Wolf** resigned his position as member of the Management Board of Arcandor AG, effective the close of July 31, 2008 and thus retired from the Management Board. The contract of employment with **Dr. Matthias Bellmann** as Management Board member expired on September 26, 2008; on this day he retired from the Management Board.

With effect from December 1, 2008, Mr. **Stefan W. Herzberg** was appointed as member of the Management Board of Arcandor AG. Effective from the same date, the Supervisory Board appointed Mr. **Rüdiger Andreas Günther** as CFO at Arcandor AG. The previous CFO, **Dr. Peter Diesch**, resigned his Management Board position effective December 31, 2008 for personal reasons. Also at his own request, and on good terms, **Prof. Dr. Helmut Merkel** will resign his Management Board position effective December 31, 2008.

We thank the retired members of the managerial bodies for their work.

A THANK YOU TO OUR MANAGEMENT AND STAFF

The Supervisory Board would like to express its thanks to the Management Board, managerial staff and staff of the Arcandor Group both in Germany and abroad for their commitment on behalf of the company during the 2007/2008 financial year.

Essen, December 11, 2008

For the Supervisory Board

Friedrich Carl Janssen
Chairman

The Supervisory Board [1)]

MEMBERS

Friedrich Carl Janssen
Chairman

Hellmut Patzelt*
Deputy Chairman

Udo Behrenwaldt
Andrea Beslmeisl*
Prof. Dr. Utho Creusen
Peter Erb*
Leo Herl
Ulrich Hocker
Prof. Dr. h. c. Karlheinz Hornung
Dr. Hans-Jochem Lüer
Rüdiger Merz*

Margret Mönig-Raane*
Wilfried Reinhard*
Dr. Hans Reischl
Christa Schubert*
Ernst Sindel*
Michael Stammler
Walter Strasheim-Weitz*
Gertrud Tippel-Kluth*
Dr. Klaus Zumwinkel

Committees

STANDING COMMITTEE

Friedrich Carl Janssen, Chairman
Leo Herl
Hellmut Patzelt*
Wilfried Reinhard*
Dr. Hans Reischl
Michael Stammler

AUDIT COMMITTEE

Prof. Dr. h. c. Karlheinz Hornung,
Chairman
Leo Herl
Friedrich Carl Janssen
Hellmut Patzelt*
Walter Strasheim-Weitz*

ARBITRATION COMMITTEE
(Section 27 Para. 3 Codetermination Act)

Friedrich Carl Janssen
Leo Herl
Hellmut Patzelt*
Christa Schubert*

NOMINATION COMMITTEE

Friedrich Carl Janssen, Chairman
Leo Herl
Dr. Hans Reischl
Michael Stammler

* Representing the employees.
1) As at December 11, 2008
Complete information about the members of the Supervisory Board and Management Board in accordance with Section 285 Para. 10 HGB (German Commercial Code) is given on pages 152 to 156.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE REPORT OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

In the Arcandor Group corporate governance means responsible corporate management and control aimed at long-term value enhancement. This increases the confidence of national and international investors, the finance markets, business partners, staff and the public in the Arcandor Group.

BASES AND FRAMEWORK OF CORPORATE GOVERNANCE

The general legal conditions for corporate governance are to be found mainly in stock corporation law. In addition, in February 2002 the government commission formulated in the German Corporate Governance Code uniform principles for German corporations to make the regulations for good corporate governance transparent, particularly for foreign investors. The Corporate Governance Code was expanded in May 2003, and most recently in June 2008.

In the reporting period, Arcandor AG complied with the recommendations of the version of the German Corporate Governance Code dated June 14, 2007 with one exception:

The D & O insurance purchased for members of Arcandor executive bodies does not include a deductible. We remain of the opinion that the agreement on a deductible is hardly suited to increasing the sense of responsibility with which the members of the Management Board and the Supervisory Board discharge the duties and functions entrusted to them. Furthermore, a deductible is not usual in other countries or at many German companies.

The new recommendation of the German Corporate Governance Code in the version of June 6, 2008, that the plenary sessions of the Supervisory Board not only advises on and regularly monitors the remuneration system for the Management Board, but also resolves it is something we do not want to implement yet. In our view, the previous distribution of responsibility between the Standing Committee and the plenary sessions of the Management Board has been successful so that we would like to wait and see what experience is gained in other companies before we make any intervention to responsibility structures which have been maintained successfully for years.

MANAGEMENT AND CONTROL STRUCTURE

Arcandor has a dual management and control structure in the Management Board and Supervisory Board in accordance with German stock corporation law. The Management Board and Supervisory Board work closely together on the basis of a balanced division of duties and responsibility for the benefit of the corporation.

The legal framework for the cooperation is provided by the corporation’s articles of incorporation and the Supervisory Board’s and Management Board’s rules of procedure.

THE SUPERVISORY BOARD

The Supervisory Board comprises 20 members in accordance with the articles of incorporation. In accordance with the German Codetermination Act it is made up of equal numbers of shareholders' and employees' representatives. Whereas the shareholders' representatives are elected by the Annual General Meeting, the employees' representatives are appointed in accordance with the German Codetermination Act. Seven employees' representatives are employees of the Group, another three are union representatives. The term of office of the previous Supervisory Board ended with the Annual General Meeting on April 23, 2008. A new election of employees' representatives was held in January 2008; the shareholders' representatives were elected by the Annual General Meeting on the recommendation of the Supervisory Board on April 23, 2008. In both cases, the elections are for five-year terms.

Following the efficiency audit of the Supervisory Board conducted by external consultants, the Supervisory Board implemented a self-evaluation in the form of a questionnaire-based efficiency audit in 2007. The results of this audit showed that expectations had been met.

Under the Supervisory Board's rules of procedure, every member of the Supervisory Board is subject to the principle of independence. Several of the shareholders' representatives on the Supervisory Board occupy or occupied a senior position with other companies during the past year. Transactions conducted by Arcandor AG with these companies are conducted on the same terms and conditions as with third-party companies. In our judgment these transactions do not affect the independence of those members of our Supervisory Board who are associated with these companies.

COMMITTEES IN THE SUPERVISORY BOARD

Under its rules of procedure the Supervisory Board forms several committees.

The **Standing Committee** is made up of the Chairman of the Supervisory Board, his representative and at least three further members to be chosen from among the Supervisory Board. At present the Standing Committee consists of six members. The Standing Committee is responsible for regulating matters between Management Board members and the corporation. Furthermore, in urgent matters, if a resolution of the Supervisory Board cannot be passed in due time at a meeting, the Standing Committee may decide in its stead on Management Board business requiring approval.

The **Audit Committee** is made up of the Chairman of the Supervisory Board, two representatives of the shareholders and two representatives of the employees. Dr. Diethart Breipohl, Chairman of the Audit Committee until December 14, 2007 and Prof. Dr. h. c. Karlheinz Hornung, Chairman since December 14, 2007, have special knowledge of and experience in the application of accounting principles and internal control procedures. As required, the Audit Committee prepared the Supervisory Board's decision on the approval of the annual financial statements and the approval of the Group financial statements for the period to September 30, 2008, and in particular a preliminary audit of the annual financial statements, the Group financial statements and the summarized Management Report and the proposal for appropriation of the profit. This meeting of the Audit Committee was attended by the auditor. Furthermore, the Audit Committee implemented the agreement to be reached annually with the auditor. Finally, this Committee deals with compliance issues.

The duties of the **Arbitration Committee**, which is made up of two shareholders' and two employees' representatives, are determined in Section 27, Paragraph 3 of the German Codetermination Act. In accordance with it, the Arbitration Committee submits proposals to the Supervisory Board for the appointment of Management Board members, if the necessary majority of two thirds of the votes of the Supervisory Board members is not achieved in the first ballot.

As the fourth committee of the Supervisory Board, the **Nomination Committee** was established in December 2007. The relevant recommendation in the German Corporate Governance Code has thus been implemented. This committee is responsible for preparing nominations of Supervisory Board candidates for the Annual General Meeting. The final decision on the nomination rests with the Supervisory Board as a whole. The Nomination Committee is composed of four shareholders' representatives.

The committees formed by the Supervisory Board operate in compliance with the German Stock Corporation Act and the German Corporate Governance Code. The Supervisory Board has issued a comprehensive statement on the activities of the individual committees during the year under review in its report (see page 51).

THE MANAGEMENT BOARD

At the start of the reporting period, the Management Board comprised six members. During the reporting period, Mr. Manny Fontenla-Novoa was appointed as the member of the Management Board responsible for the Thomas Cook segment effective April 23, 2008. Mr. Wolf and Dr. Bellmann stepped down from the Management Board effective at the close of July 31, 2008 and September 26, 2008, respectively, leaving the Management Board with five members as of September 30, 2008. In line with the recommendation in the German Corporate Governance Code, the rules of procedure for the Management Board regulate its work, particularly the responsibilities of the individual Management Board members, the matters which are the responsibility of the Management Board as a whole, and the necessary majorities for Management Board resolutions.

TRANSPARENCY

Since the introduction of the Corporate Governance Code, Arcandor AG has published a financial calendar on its website. This provides timely information about relevant dates and events, e.g. the date of the AGM or the release dates of the financial reports. Furthermore, all Investor Relations, press and ad-hoc reports released since 2004 are accessible on the Internet. Finally, all of the company's Declarations of Compliance with the Code have been made accessible on the website (even those that are no longer applicable). Insider information directly concerning Arcandor AG is published immediately in the form of ad-hoc releases, unless later publication is advisable owing to special corporate interests.

RISK MANAGEMENT, ACCOUNTING, LIABILITY AUDIT

To enable early identification of material risks, Arcandor AG has set up a risk management system. A detailed account is given in the Group Management Report on pages 86 to 90.

Consolidated accounting is in accordance with IFRS (International Financial Reporting Standards).

The Supervisory Board appointed BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft to be the auditors for the 2007/2008 financial year. The Supervisory Board first ascertained that no business, financial, personal or other relations which could give rise to doubts about the auditor's impartiality existed between the auditor and its executive bodies and audit managers on one hand and the corporation and the members of its executive bodies on the other. The main points of the audit were fixed with the auditor and it was agreed that any possible grounds for exclusion or partiality would be removed or made known without delay during the audit.

INCENTIVE SYSTEMS BASED ON SHARE PRICE

In March 2007, a phantom stock option program was implemented for a select group of executives. The phantom stock program is a remuneration program based on the share price, which rewards a considerable increase in the enterprise value of Arcandor. Detailed information on the structure and the scope of the program can be found on pages 114 to 116 of the Group Notes.

DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

On December 11, 2008, we issued the following Declaration of Compliance pursuant to section 161 of the German Stock Corporation Act and subsequently made continuously accessible to the shareholders on the corporation's Internet site at www.arcandor.com: Investor Relations/Corporate Governance/Compliance Statement.

"The Management Board and Supervisory Board of ARCANDOR AG declare in accordance with Section 161 German Stock Corporation Law:

Arcandor AG complies with all the recommendations of the German Corporate Governance Code in the version of June 6, 2008 with the exception of the retention in the case of the D & O insurance (Code section 3.8 (2)) and the resolution responsibility of the plenary sessions of the Supervisory Board relating to the remuneration system for the Management Board (Code section 4.2.2 (1)) and will continue to comply with them to the aforementioned extent in future. Since issuing the last declaration of compliance on January 16, 2008, Arcandor AG has complied with the Code in the version of June 14, 2007, with the exception mentioned there, namely, no retention in the case of the D & O insurance (Code section 3.8 (2))."

REMUNERATION REPORT

The remuneration report summarizes all of the policies applied to the determination of the remuneration of the Management Board of Arcandor AG, and explains both the structure and the amount of the income of the Management Board. It also describes the policies and amount of remuneration of the Supervisory Board.

Finally, it provides information about the shareholdings of the Management Board and Supervisory Board and transactions involving shares of Arcandor AG to be disclosed under the Securities Trading Act.

The report follows the recommendations of the German Corporate Governance Code and contains information which is required under the provisions of German commercial law, extended by the Management Board Remuneration Disclosure Act, pursuant to Sections 314, 315 of the German Commercial Code.

The remuneration report is an integral part of the Group Management Report and is included in full on pages 63 to 68.

CONSOLIDATED MANAGEMENT REPORT

THE GROUP

Group structure and operating activities

THOMAS COOK

Arcandor holds approximately 53 % in the tourism group Thomas Cook Group plc, which is split into the following divisions:

- UK and Ireland
- Continental Europe
- Northern Europe
- North America
- Condor

PRIMONDO

Primondo bundles the Arcandor Group's mail order activities and is split into the following divisions:

- Universal Mail Order Quelle (Germany and International)
- Specialty Mail Order (Communities, Golden Ager, Premium)
- New Media (teleshopping, e-commerce)

KARSTADT

Karstadt (department stores) is divided into the following formats:

- Premium
- Karstadt Department Stores
- Karstadt sports
- karstadt.de

See "Operating segments" (pages 16 to 41) for further information on the individual segments and their divisions.

Management and control

Organization and management structure

Arcandor has a dual management and control structure in the Management Board and Supervisory Board in accordance with German stock corporation law. The Management Board and Supervisory Board work closely together on the basis of a balanced division of duties and responsibility for the benefit of the corporation. The legal framework for the cooperation is provided by the corporation's articles of incorporation and the Supervisory Board's and Management Board's rules of procedure. The detailed presentation of our management structure and its work can be found in the Corporate Governance section on pages 57 to 60. Corporate officers and their supervisory functions in accordance with KonTraG are shown on pages 152 to 156.

Remuneration report

The remuneration report summarizes all of the policies applied to the determination of the remuneration of the Management Board of Arcandor AG, and explains both the structure and the amount of the income of the Management Board. It also describes the policies and amount of remuneration of the Supervisory Board.

Finally, it provides information about the shareholdings of the Management Board and Supervisory Board and transactions involving shares of Arcandor AG to be disclosed under the Wertpapierhandelsgesetz (Securities Trading Act).

The report follows the recommendations of the German Corporate Governance Code and contains information which is required under the provisions of German commercial law, extended by the Gesetz über die Offenlegung der Vorstandsvergütungen (Management Board Remuneration Disclosure Act), pursuant to Sections 314, 315 of the Handelsgesetzbuch (HGB – German Commercial Code).

REMUNERATION OF THE MANAGEMENT BOARD

Remuneration structure

The Standing Committee, whose members include the Chairman of the Supervisory Board and his deputy, is responsible for determining remuneration for the individual members of the Management Board.

In the case of Mr. Fontenla-Novoa, who has no service contract with Arcandor AG, remuneration has been fixed by the Management Development and Remuneration Committee of Thomas Cook Group plc.

In the 2007/2008 financial year (from October 1, 2007 to September 30, 2008), the total remuneration comprises the following components:

- Fixed remuneration
- Variable bonus
- Dividend-related remuneration (management bonus)
- Special remuneration
- Contribution to retirement pension
- Fringe benefits

The total remuneration for the members of the Management Board thus includes non-performance-related and performance-related components. The non-performance-related parts of the remuneration comprise a fixed remuneration (including the guaranteed part of the dividend-related profit-sharing payment) and fringe benefits as well as the contribution to the retirement pension, while the performance-related components are divided into a variable bonus, special remuneration and a profit-sharing payment.

The individual components of the remuneration:

- The fixed remuneration comprises the fixed salary and a guaranteed part of the management bonus and is paid monthly, as well as a guaranteed annual payment for one member of the Management Board.

- The members of the Management Board also receive as fringe benefits non-monetary and other benefits, which include the private use of company cars, inclusion in the Group accident and D & O insurance cover as well as travel to and from home and housing costs under the two-households provision. For use of the company car the value to be applied in accordance with tax guidelines is applied.

- The variable bonus is dependent on the company achieving a result annually agreed beforehand and the level of fulfillment of an individual target agreement to be concluded yearly. Under the restructuring concept these two components were combined into a “performance target” for each year from 2005 to 2007. This provision was also established when the variable bonus was measured and applied to the 2007/2008 financial year as a whole. The performance target comprises 50 % from the EBITDA subcomponent and 50 % from the operating cash flow subcomponent. The bonus is limited to a maximum of 200 % of the agreed basic amount.

- The members of the Management Board participate in the Arcandor AG phantom stock program which was implemented in March 2007. This is described in detail in the Group Notes on pages 114 and 116 The phantom stock program is a remuneration element with the character of a long-term incentive. Members of the Management Board were not granted any share options in the 2007/2008 financial year.

- Additionally, in cases of special performance the Supervisory Board may at its obligatory discretion fix a special remuneration. The Standing Committee laid down the amount of the bonuses and special remunerations after examining the fulfillment of the targets set at the beginning of the financial year.

- The profit-sharing payment depends on the amount of the dividend per no-par value share paid to shareholders for the respective financial year. However, part of this remuneration component is guaranteed as a fixed salary independently of the actual payment of a dividend and is paid out monthly (see above). Since no dividend is being paid for the 2007/2008 financial year, the members of the Management Board will receive no profit-sharing payment over and above the guaranteed amount.

- Under the restructuring concept the members appointed to the Management Board up until the end of 2005 agreed to a reduction by 15% of all the aforementioned remuneration components for 2005 to 2007.

- For the 2008/2009 to 2010/2011 financial years, the Management Board members – as other employees in the Group –are also taking part in a "Pact for the Future" to strengthen the company. For the Management Board members, the income waiver amounts to 30% of the total monetary remuneration annually, whereby fixed remuneration is reduced by 5% and the residual amount is offset by the bonus payment. In order to achieve cash effectiveness in 2008, only a correspondingly reduced bonus will be paid out for the 2007/ 2008 financial year. However, this deduction is not recognized in the following remuneration chart because it concerns an anticipated contribution to the "Pact for the Future" for the 2008/2009 financial year.

- The fixed remuneration, the profit-sharing payment and the bonus are examined at regular intervals of up to three years. During the examination, the company's economic position and future prospects and the general growth of income in the German industry and retail trade are taken into consideration, as well as the Management Board members' performance and duties.

The total remuneration to be received by Mr. Fontenla-Novoa from Thomas Cook Group plc during the reporting period comprises a fixed base salary, a variable bonus, a special bonus, an interest in two long-term share-based incentive programs and a contribution to the retirement pension, as well as fringe benefits. 75% of the variable bonus is dependent on the company achieving a result annually agreed beforehand and a 25% depends on the level of fulfillment of an individual target agreement to be concluded yearly.

Amount of remuneration

The Management Board's remuneration is determined by the size of the segment controlled, its economic and financial situation and the level and structure of the remuneration at comparable companies. In addition, the duties of and contribution made by the respective Management Board member are taken into account.

The following remuneration resulted for individual members of the Management Board for the 2007/2008 financial year (October 1, 2007 to September 30, 2008):

The Management Board's remuneration in detail

for the 2007/2008 financial year (October 1, 2007 to September 30, 2008)

Amounts shown in th. €	Fixed remuneration (fixed salary, guaranteed remuneration, guaranteed profit-sharing remuneration, fringe benefits) *	Variable monetary remuneration with short-term incentive effect (bonus, profit-sharing remuneration, special remuneration)	Total	Provisions phantom stock program	Transfer to pension provisions/ pension fund
Dr. Thomas Middelhoff – Chairman –	1,221	2,642	3,863	5	371
Marc Sommer – Deputy Chairman – 1)	1,237	1,310	2,547	4	388
Dr. Matthias Bellmann 2)	602	246	848	1	-
Dr. Peter Diesch	1,177	1,300	2,477	5	37
Manny Fontenla-Novoa 3)	454	3,932	4,386	-	109
Prof. Dr. Helmut Merkel	589	231	820	3	263
Peter Wolf 4)	742	3,000	3,742	-	-
	6,022	**12,661**	**18,683**	**18**	**1,168**

* Including remuneration for executive body activities in the Thomas Cook segment.

1) Deputy Chairman of the Management Board since April 23, 2008.

2) Member of the Management Board until September 26, 2008.

3) Member of the Management Board since April 23, 2008. The remuneration is granted to Mr. Fontenla-Novoa by Thomas Cook Group plc for his function as CEO of Thomas Cook and not for being a member of the Management Board of Arcandor AG. For transparency reasons the renumeration is also disclosed in the Arcandor financial statements. The remuneration was paid in Pounds Sterling (GBP) and was translated into euro at an average rate of 1,31003.

4) Member of the Management Board until July 31, 2008. Variable, monetary remuneration granted to Mr. Wolf are ecplained in the section "Benefits in the event of termination of activity".

The variable monetary remuneration with a short-term incentive in the above table also shows the share in the variable bonus which due to the 2007 phantom stock program is not paid in the 2007/2008 financial year, but at the latest when the program ends in 2012.

Benefits in the event of termination of activity

Furthermore, the above table shows the transfer to pension provisions in the financial year individually for each member of the Management Board. Members of the Management Board have a right to future retirement pension payments after the end of their service contract on reaching the age limit or because of permanent unfitness for work.

The retirement pension for Management Board members first appointed by January 1, 2006 is determined according to a percentage share of the last fixed salary payment which the member received before the end of his service contract. This percentage share of 25 % rises by 2 percentage points for every year of membership of the Management Board from the time of the first re-appointment of the Management Board member. The maximum percentage share is limited to 50 %. In a service contract the initial percentage share amounts to 32 %, which rises by two percentage points for every year of membership on the Management Board from the time of initial appointment. The maximum percentage share here is limited to 60 %.

If the service contract ends because

- the appointment to the Management Board is not repeated or the period of office is not extended or
- the appointment is revoked and no reason exists for termination without notice or
- the appointment and the service contract are terminated prematurely at the earliest on the 62nd birthday, the Management Board member will receive a retirement pension under the foregoing provisions from the end of the service contract, if he has reached his 55th birthday. If the service contract ends before the member's 55th birthday and any of the foregoing conditions is fulfilled, the member of the Management Board is entitled to a retirement pension under the provisions of the Occupational Pension Schemes Act (BetrAVG). In this case the company will waive adherence to the periods for vested entitlement under the Occupational Pension Schemes Act.

Until his 65th birthday the Management Board member must have amounts earned from regular employment of his services elsewhere credited against the pension, if these earnings, together with the pension, exceed the total earnings last received from the company.

Management Board members who were appointed for the first time before August 1, 2006, are entitled to transitional payments for 12 months, if they retire from the Management Board after their 55th birthday. The transitional payments are equal to the fixed salary in the year of retirement and the average of the paid performance-related payments and variable bonuses of the last three years before retirement. Only then do the retirement pension rules apply.

The system of income- and service-time-related pension rules was discontinued for Management Board members appointed after January 1, 2006, and replaced with a yearly contractually fixed payment into a fund, which in the insured event is paid out in a capitalized form.

The defined benefit obligation – DBO – of all pension commitments to active members of the Management Board amounts to 3.6 mill. € (previous year: 2.9 mill. €).

For the case of premature termination of the service contract, the Management Board contracts agreed to date – with the exception of the following ruling on the change of control clauses – contain no express severance pay guarantee. However, severance pay may result from an individually reached severance agreement. In line with the new Code recommendation made under Section 4.2.3, starting in the 2008/2009 financial year, any future Management Board contracts to be entered into will provide for the restriction of any severance pay in the event of premature termination of Management Board activities.

Two employment contracts of Management Board members serving at the end of the reporting period contain change of control clauses. In the event of a change of control, one Management Board member has the right to terminate the employment contract within six months without notice. If the right of termination is exercised, the Management Board member has a claim to severance pay equal to the remuneration that he would have received on the basis of his yearly target income for the remainder of the contractual term or at least equal to an annual target income for 100 % target fulfillment for the variable remuneration. A change of control in this sense takes place, if on grounds of direct or indirect participation or attribution under Section 30 of the German

Securities Acquisition and Takeover Act (WpÜG) another shareholder or company member than the Madeleine Schickedanz pool acquires at least half of the shares or voting rights. A change of control also takes place if this shareholder acquires a shareholding which procures him the majority of votes at the Annual General Meeting, taking into account the average capital represented at the last three Annual General Meetings, or the Madeleine Schickedanz pool transfers to another Group company a material holding in the company. Similar rules apply if Arcandor AG shares are delisted or the company changes its legal form.

In the case of one member of the Management Board, if he loses his Management Board seat through changes in majority relations at Arcandor AG, Quelle GmbH and neckermann.de GmbH, he will continue to receive the remuneration under his employment contract for the remainder of the contractual term. Here a 100% target fulfillment level will be assumed for the variable components of the remuneration. In this case the Management Board member has the right to terminate his employment contract without forfeiting his claim to remuneration for the remainder of the term of the contract.

A severance agreement was entered into with Mr. Peter Wolf, who retired from the Management Board at the end of July 2008. This agreement also caused his Management Board contract, which ran to July 31, 2009, to expire at the date of his retirement from the Management Board. To settle the remaining term, severance pay in the amount of 1.5 mill. € was agreed. At the same time, this settled the variable bonus for the 2007/ 2008 financial year. Moreover, the severance agreement ultimately provided for the payment of a special bonus of 3.0 mill. € for successful completion of the process, lasting several years, of selling the Group's own real estate. The first and second tranches of the phantom stocks granted to Mr. Wolf up to the expiration of the Management Board contract (the terms of which tranches were from March 21, 2007 to 21 March 2009 and March 21, 2008 to March 21, 2010, respectively) are not affected by the severance agreement and will be calculated after the end of the respective vesting periods.

Members of the Management Board do not receive remuneration for mandates relating to the Group's own companies with the exception of executive body activities in the Thomas Cook segment.

No loans or advance payments were granted to Management Board members during the year under review. During the period under review, no Management Board member was granted or promised payments by third parties in respect of his activity as a member of the Management Board.

REMUNERATION OF THE SUPERVISORY BOARD

Remuneration structure

The remuneration of the Supervisory Board is fixed by the Annual General Meeting and is regulated in Section 13 of the articles of incorporation of Arcandor AG. The remuneration is aligned to the size of the company and the associated responsibility of the Supervisory Board members and the economic situation and performance of the corporation. As well as the refund of their expenses, members of the Supervisory Board receive an annual fixed remuneration of 20,000 €, which increases by 650 € for each profit share of 0.01 € per share resolved by the Annual General Meeting and paid to shareholders over and above a profit share of 0.10 €.

In accordance with the provisions of the German Corporate Governance Code, the chairman, deputy chairman and members of a committee are to be included in remuneration. The Chairman of the Supervisory Board received twice this amount, the Chairman of the Audit Committee 1.75 times the amount, the Deputy Chairman and each member of a committee 1.5 times the amount of the remuneration determined for members of the Supervisory Board. If a member of the Supervisory Board at the same time holds a number of offices for which a higher remuneration is allowed, he receives only the remuneration for the most highly remunerated office. Changes to the Supervisory Board and its committees during the financial year result in remuneration on a pro rata temporis basis.

Amount of remuneration

Application of the provisions mentioned above resulted in the following remuneration for individual members of the Supervisory Board for the 2007/2008 financial year. No loans or advance payments were granted to Supervisory Board members during the reporting period.

The members of the individual Supervisory Board committees are shown in the Report of the Supervisory Board.

Supervisory Board remuneration in detail
for the period between Oktober 1, 2007 and September 30, 2008

Amounts shown in th. €	Fixed remuneration	Additional remuneration**	Total	Changes in membership
Friedrich Carl Janssen – Chairman –	-	-	-	since 09.11.2008, Chairman since 13.11.2008
Hellmut Patzelt* 1) – Deputy Chairman –	12.9	4.4	17.3	since 02.04.2008
Wilfried Behrens*	11.3	-	11.3	until 23.04.2008
Udo Behrenwaldt	20.0	-	20.0	
Andrea Beslmeisl*	8.8	-	8.8	since 23.04.2008
Hero Brahms – Chairman –	20.0	20.0	40.0	until 31.10.2008
Dr. Diethart Breipohl	11.3	3.1	14.4	until 23.04.2008
Prof. Dr. Utho Creusen	8.8	-	8.8	since 23.04.2008
Bodo Dehn*	11.3	-	11.3	until 23.04.2008
Peter Erb*	8.8	-	8.8	since 23.04.2008
Leo Herl	20.0	10.0	30.0	
Ulrich Hocker	20.0	-	20.0	
Prof. Dr. h. c. Karlheinz Hornung	16.1	12.0	28.1	since 12.12.2007
Peter Kalow*	11.3	5.6	16.9	until 23.04.2008
Franz Lajosbanyai* 1)	12.8	-	12.8	until 27.03.2008
Holger Robert Lampatz	1.7	-	1.7	until 31.10.2007
Dr. Hans-Jochem Lüer	-	-	-	since 09.11.2008
Rüdiger Merz*	8.8	-	8.8	since 23.04.2008
Margret Mönig-Raane*	20.0	-	20.0	
Wolfgang Pokriefke* – Deputy Chairman –	11.3	5.6	16.9	until 23.04.2008
Wilfried Reinhard* 1)	19.4	4.4	23.8	since 23.04.2008
Dr. Hans Reischl	20.0	10.0	30.0	
Rita Rodenbücher*	11.3	-	11.3	until 23.04.2008
Juergen Schreiber	20.0	-	20.0	until 31.10.2008
Christa Schubert*	20.0	4.4	24.4	
Ernst Sindel* 1)	11.4	-	11.4	since 23.04.2008
Michael Stammler	20.0	10.0	30.0	
Walter Strasheim-Weitz*	8.8	4.4	13.2	since 23.04.2008
Gertrud Tippel-Kluth* 1)	26.0	-	26.0	
Werner Wild*	11.3	-	11.3	until 23.04.2008
Dr. Klaus Zumwinkel	20.0	-	20.0	
	423.4	**93.9**	**517.3**	

* Representing the employees.
** For membership of Standing Committee and Audit Committee and for chairmanship/deputy chairmanship of Supervisory Board.
1) Includes also the remuneration for other Supervisory Board seats in the Arcandor Group.

SHAREHOLDINGS OF MANAGEMENT BOARD AND SUPERVISORY BOARD

The holding of securities in Arcandor AG by members of the Management Board and Supervisory Board of the Corporation must be disclosed in accordance with the German Corporate Governance Code, if it directly or indirectly exceeds 1% of the shares issued by the company. If the total of shares held by all Management Board and Supervisory Board members exceeds 1% of the shares issued by the Company, the totals of shares held by Management Board and Supervisory Board must be disclosed separately.

As of September 30, 2008, the members of the Supervisory Board together are allocated 34.55% of the shares issued by the Company. Of these 34.55% (79,527,108 shares) are allocated to Leo Herl. The members of the Management Board do not hold any shares in the company.

SHARE TRANSACTIONS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Members of the Management Board and Supervisory Board are required under Section 15a German Securities Trading Act (WpHG) to disclose the acquisition or disposal of securities of Arcandor AG, if the value of transactions conducted by the member or his associates within one calendar year amounts to or exceeds 5,000 €. These disclosures are published promptly on our website.

The following transactions were reported to Arcandor AG for the last financial year and the period immediately following it:

Directors' Dealings notifications in line with § 15 a of the German Securities Trading Act (WpHG)
Arcandor share transactions (ISIN DE0006275001)

Subject to Notification	Nature of trade	Date	No. of items	Price in €	Total volume in €	Stock market
Grisfonta AG [1]	sale	28.09.2008	16,427,627	1.91	31,376,767.57	off-market (Cologne)
Madeleine Schickedanz Vermögensverwaltung GmbH [1]	sale	28.09.2008	20,289,273	1.91	38,752,511.43	off-market (Cologne)
Madeleine Schickedanz Vermögensverwaltung GmbH [1]	sale	17.10.2008	12,661,000	1.91	24,182,510.00	off-market (Cologne)
Madeleine Schickedanz [2]	disposal[3]	16.10.2008	20,289,273	unquantifiable	unquantifiable	off-market (Fürth)
Madeleine Schickedanz Vermögensverwaltung GmbH [1]	re-transfer[3]	16.10.2008	20,289,273	unquantifiable	unquantifiable	off-market (Fürth)
Madeleine Schickedanz [2]	disposal[3]	24.10.2008	11,817,441	unquantifiable	unquantifiable	off-market (Fürth)
Madeleine Schickedanz Vermögensverwaltung GmbH [1]	re-transfer[3]	24.10.2008	11,817,441	unquantifiable	unquantifiable	off-market (Fürth)
Madeleine Schickedanz [2]	purchase	17.11.2008	103,559	1.8926	195,995.76	Frankfurt am Main
Madeleine Schickedanz [2]	purchase	18.11.2008	200,000	1.9325	386,500.00	Frankfurt am Main
Madeleine Schickedanz [2]	purchase	19.11.2008	200,000	1.895	379,000.00	Frankfurt am Main
Madeleine Schickedanz [2]	purchase	20.11.2008	110,000	1.7285	190,135.00	Frankfurt am Main
Madeleine Schickedanz [2]	purchase	21.11.2008	230,000	1.836	422,280.00	Frankfurt am Main
Madeleine Schickedanz [2]	disposal[3]	25.11.2008	843,559	unquantifiable	unquantifiable	off-market (Fürth)
Madeleine Schickedanz Vermögensverwaltung GmbH [1]	re-transfer[3]	25.11.2008	843,559	unquantifiable	unquantifiable	off-market (Fürth)

[1] Legal person with a close relationship to a person holding a managerial function (administrative or supervisory).
[2] Natural person with a close relationship to a person holding a managerial function (administrative or supervisory).
[3] Re-transfer of shares that were sold by Madeleine Schickedanz Vermögensverwaltungs GmbH & Co. KG on request of Mrs. Madeleine Schickedanz on 28.09.2008 and on 17.10.2008 respectively.

OTHER INFORMATION

The members of the executive bodies are, in so far as the law permits, released by Arcandor AG from claims by third parties. To this end, Arcandor AG maintains group asset liability insurance (D & O insurance) for the members of its executive bodies.

Capital

Disclosures in accordance with section 315 (4) HGB

COMPOSITION OF SUBSCRIBED CAPITAL

The composition of subscribed capital is presented on page 94.

The outstanding share capital in the amount of 574.7 mill. € (previous year 551.1 mill. €) is divided into 230,205,528 (previous year: 220,970,370) no-par value bearer shares each with a proportionate interest in the share capital of 2.56 €. Here, 5,697,827 Treasury shares (previous year 5,697,827 shares) amounting to 14.6 mill. € (previous year 14.6 mill. €) were deducted from share capital.

The increase in the share capital is attributable to the exercise of the conversion right relating to the convertible bonds amounting to 23.6 mill. € (9,235,158 shares, Contingent Capital I).

RESTRICTIONS RELATING TO VOTING RIGHTS OR THE TRANSFER OF SHARES IN EXCESS OF 10 % OF THE TOTAL VOTING RIGHTS

There are no restrictions relating to voting rights or the transfer of shares.

DIRECT OR INDIRECT EQUITY INTERESTS

As of September 30, 2008, a total of 79,527,108 shares of the Company are attributable to Mr. Leo Herl, Chairman of the Management Board of Madeleine Schickedanz Vermögensverwaltungs GmbH & Co. KG, Forsthausstrasse 3 – 5, 90768 Fürth-Dambach, Germany, in his capacity as a member of the Supervisory Board of Arcandor AG. This represents 34.55 % of the total share capital.

HOLDERS OF SHARES CARRYING SPECIAL RIGHTS

Arcandor AG has not issued any shares carrying special rights.

CONTROL OF VOTING RIGHTS ATTRIBUTABLE TO EMPLOYEE SHARES

The Company is not aware of whether individual employees hold shares in the Company and exercise their rights of control directly.

LEGAL PROVISIONS AND ARTICLES OF INCORPORATION RELATING TO THE APPOINTMENT AND DISMISSAL OF MEMBERS OF THE MANAGEMENT BOARD AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The appointment and dismissal of members of the Management Board is governed by sections 84 and 85 of the German Stock Corporation Act. Amendments to the Articles of Association are governed by sections 133 and 179 of the German Stock Corporation Act.

MANAGEMENT BOARD AUTHORIZATIONS WITH REGARD TO THE ISSUE AND REPURCHASE OF SHARES

Authorized Capital I and II

In accordance with the resolution at the Annual General Meeting on May 8, 2006, the Management Board is authorized, subject to the approval of the Supervisory Board, to increase the share capital of the Company on one or more occasions until May 2011 by a total of up to 200.0 mill. € through the issue of new bearer shares against cash contributions.

The authorizations relate to 100.0 mill. € Authorized Capital I and Authorized Capital II respectively. On September 29, 2008, a capital increase was implemented, utilizing Authorized Capital I. It was only registered after the reporting date.

At June 30, 2007, the regulations relating to the Authorized Capital III have become irrelevant through the passage of time.

Contingent Capital I

(Convertible bonds and/or warrant bonds)

The Management Board was authorized to issue registered convertible and/or warrant bonds with a total nominal volume of up to 600 mill. € and a term of not more than 20 years on one or more occasions until June 30, 2005, and to grant conversion rights to the bearers and creditors of convertible bonds and options to the bearers or creditors of warrant bonds relating to new shares of the Company with a proportionate interest in the share capital of up to 50 mill. € in accordance with the terms defined more precisely in the conditions of the convertible and/or warrant bonds.

Accordingly, the Company's share capital was contingently increased by up to 50 mill. €. The purpose of this contingent capital increase is to grant rights to the bearers or creditors of convertible and warrant bonds issued until June 30, 2005 in accordance with the authorization described above.

In December 2004, Arcandor AG, acting via its Dutch subsidiary Karstadt Finance B.V., Hulst/Netherlands, issued a convertible bond guaranteed by Arcandor AG on the Luxembourg Stock Exchange with a nominal volume of 170.0 mill. € (DE000A0DH5H7).

On December 27, 2007, Arcandor AG exercised the option right to discharge the convertible bond. All outstanding convertible bonds were converted. This represents an increase in share capital of 23.6 mill. € and an increase in capital reserves of 50.7 mill. € overall.

The convertible bond yielded a nominal interest of 4.5 % and had a term of five years. During the exercise period, creditors of the convertible bonds were entitled to convert their respective partial bonds, totaling 3,400 bonds each with a nominal value of 50 th. € and representing a proportionate interest in the share capital of Arcandor AG of 49.7 mill. €, into shares of Arcandor AG. The number of shares per bond is 5,707.76 (representing a total of 19,406,392 shares).

The conversion price as specified in the conditions of the bond was 8.76 €. However, the conversion price could be adjusted under certain circumstances (e.g. protection against dilution for capital increases from retained earnings, protection against changes in control).

The convertible bond was sub-divided into bond and share option components in accordance with a market price model. This resulted in an 80.38 % proportion for bond components, while option components accounted for 19.62 % of the proceeds from the issue. Transaction costs totaling 3.7 mill. € were also taken into consideration in 2004.

Contingent Capital II
(Incentive Stock Option Plan)

The Annual General Meeting on July 12, 2001 resolved the creation of Contingent Capital II.

The Management Board is authorized, subject to the approval of the Supervisory Board, to increase the share capital of the Company until September 30, 2009 through the issue of up to 6,380,000 new no-par value bearer shares to executives of the Company with shareholders' subscription rights disapplied.

Contingent Capital IV and V

The Annual General Meeting of Arcandor AG on May 10, 2007 authorized the Management Board to issue convertible and/or warrant bonds either with shareholders' subscription rights or with such subscription rights disapplied.

In both cases, the Management Board is authorized, subject to the approval of the Supervisory Board, to issue registered convertible and/or warrant bonds with a total nominal volume of up to 900 mill. € and a term of not more than 20 years on one or more occasions until May 9, 2012, and to grant conversion rights to the bearers and creditors of convertible bonds and options to the bearers or creditors of warrant bonds relating to new no-par value bearer shares of the Company with a proportionate interest in the share capital of up to 60 mill. € in accordance with the terms defined more precisely in the conditions of the convertible and/or warrant bonds.

In the first case, the Management Board is authorized, subject to the approval of the Supervisory Board, to disapply shareholders' subscription rights in relation to the issue of partial bonds meeting certain conditions, providing that these bonds are issued against cash contributions and the Management Board is satisfied, based on the results of the required examination, that the issuing price of the partial bonds is not significantly lower than their theoretical market value calculated in accordance with recognized investment techniques.

The Annual General Meeting of Arcandor AG on May 10, 2007 resolved the creation of Contingent Capital IV and Contingent Capital V. In both cases, the share capital can be contingently increased by up to 60 mill. € by issuing up to 23,437,500 new bearer shares with a pro rata amount of share capital of 2.56 €. The purpose of this contingent capital increase is to grant rights to the bearers or creditors of convertible and warrant bonds issued up to May 9, 2012 by Arcandor AG or a direct or indirect subsidiary. The contingent capital increase will only be implemented to the extent that these rights are exercised.

AUTHORIZATION TO ACQUIRE TREASURY SHARES

The Annual General Meeting on July 11, 2002 authorized the Management Board to acquire Treasury shares for the purposes of launching the Company's shares on foreign stock exchanges on which they had not previously been admitted to trading, or for offering shares of the Company to third parties as consideration for mergers or the acquisition of companies or equity interests in these companies.

The Management Board is also authorized to acquire Treasury shares to be subsequently offered to executives of the Company under the terms of the Incentive Stock Option Plan in order to service the resulting subscription rights.

In addition, the Annual General Meeting on May 4, 2004 resolved to authorize the Management Board to use Treasury shares to service conversion and/or subscription rights (see Contingent Capital I above).

This authorization is limited to shares with a value of up to 10% of the Company's share capital on July 11, 2002, which totaled 301,459,904 €. This represents 11,775,777 no-par value shares. Shareholders' subscription rights for Treasury shares are disapplied to the extent that such shares are used in accordance with the authorizations listed above.

The Company bought back a total of 11,424,883 shares. The number of Treasury shares held by the Company was reduced to 5,697,827 as a result of the exercise of subscription rights under the Incentive Stock Option Plan in 2006 and the acquisition of HSE Home Shopping Europe GmbH & Co. KG in the previous year. This represents 2.5% of the Company's current share capital.

The Annual General Meeting on April 23, 2008 authorized the Management Board up to October 22, 2009, to acquire Treasury shares at a proportionate amount of up to ten percent of the share capital or, if less, at the amount of the current authorization of the share capital at the time of exercise for any permitted purpose. The acquisition may take place via the stock exchange, on the basis of a public purchase offering to all shareholders or on the basis of a public invitation to all shareholders to making a selling offer.

The Management Board was also authorized to deploy the Treasury shares acquired on the basis of the above authorization, in some cases with the approval of the Supervisory Board, for various purposes. This relates particularly to the sale of shares, the acquisition of companies and servicing warrant and/or convertible bonds. On this item of the agenda, the Management Board provided a written report on the exclusion of subscription rights.

PAID CONTRIBUTIONS FOR RESOLVED CAPITAL INCREASE

On September 29, 2008, a capital increase of 59.9 mill. € was implemented, utilizing Authorized Capital I, by issuing 23,020,552 new no-par value bearer shares against cash contributions. The new shares are issued at their nominal value of 2.56 € per share plus a premium of 0.04 €, with a total value of 2.60 € per share.

The capital increase had still not been entered into the Commercial Register on the balance sheet date, but had already been fully paid up. For this reason, the amount of 59.9 mill. € is recognized under the item “paid contributions for resolved capital increase” on the reporting date. Entry into the Commercial Register took place on October 23, 2008.

MATERIAL AGREEMENTS SUBJECT TO THE CONDITION OF A CHANGE OF CONTROL OFFER

As a matter of principle, all material agreements include a change of control clause. In particular, the 1.5 bill. € syndicated loan facility and the credit facility of up to 155 mill. € taken up on September 29, 2008 to cover financing peaks include a clause that comes into force in the event of the acquisition of Arcandor AG. In the event of a change of control, bonds issued by Arcandor AG with conversion rights in Thomas Cook Group plc shares can be paid back by Arcandor AG under certain conditions.

COMPENSATION AGREEMENTS WITH MEMBERS OF THE MANAGEMENT BOARD AND EMPLOYEES

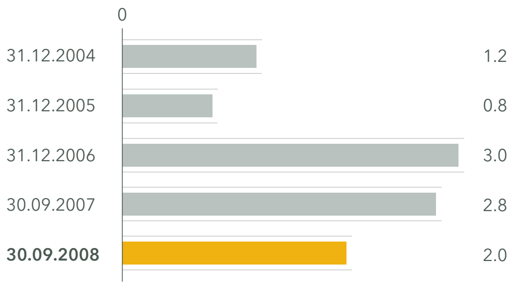
Two members serving on the Management Board to the end of the reporting period are entitled to terminate their employment contract in the event of a change of control. Members of the Management Board who exercise this right of termination shall be entitled to receive severance pay in the amount of their expected annual income for the remaining term of their contract. This is explained in more detail in the Remuneration report. No agreements including a change of control clause have been entered into with employees.

GENERAL ECONOMIC CONDITIONS

Overall economic situation

Gross domestic product

Real change on previous year in %



Source: Destatis (Federal German Statistics Office).

INCREASE OF REAL GROSS DOMESTIC PRODUCT BY 2.0 %

Over the course of 2008, negative factors impacting on the German economy have significantly increased. Economic development has been particularly influenced by the real estate and financial crisis, increases in the price of food, raw materials and energy sources as well as the appreciation of the euro which negatively impacted the export business. Only due to the good first quarter of 2008 did gross domestic product increase by a real 2.0 % in the period between October 1, 2007 and September 30, 2008.

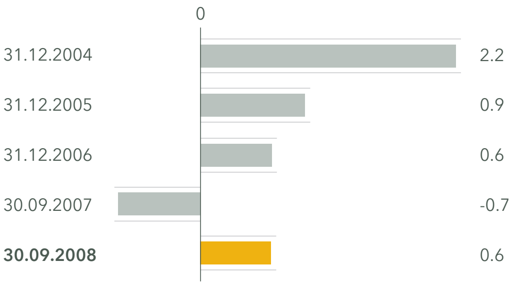
SLIGHT FALL IN PRIVATE CONSUMPTION

Despite a continued positive employment trend and increases in collective wages, private consumption did not fulfill its expected role as a growth driver. Available income increased by 2.5 %. However, this positive development was neutralized by a considerable increase in the rate of inflation and the rise in the savings ratio. In net terms, private consumption declined by a real 0.3 % in the period from October 1, 2007 to September 30, 2008.

INCREASING COST OF LIVING

In the reporting period, the cost of living increased by 3.0 %. This is particularly attributable to increased prices for domestic fuel and motor fuel (plus 17.7 %) as well as for food and alcohol-free beverages (plus 7.1 %). Retail prices (excluding motor vehicles and gas stations) increased by 2.9 % in the 2007/2008 financial year.

Performance of sales in the retail trade
(nominal) Change on previous year in %



Source: Destatis (Federal German Statistics Office), Hauptverband des deutschen Einzelhandels (Main Association of the German Retail Trade, HdE).

DECLINE IN RETAIL SALES

According to the German Federal Statistical Office, retail sales fell by 2.0 % in real terms from October 1, 2007 to September 30, 2008. Retail sales in the narrow sense (excluding motor vehicles, pharmacies, gas stations and fuel sales) declined by a real 1.5 %. This was primarily driven by the rising cost of energy and food.

Industry-specific conditions

TOURISM

Tourism is a growing sector. In the past, the tourism market posted growth rates twice those of the gross domestic product (Source: World Tourism Barometer). Furthermore, the tourism industry displayed resilience in times of crisis and recovered quickly from external shocks. For example, despite the attacks in New York, London and Madrid, SARS, bird flu and the Asian tsunami, approximately 19 million customers in Great Britain booked a package tour. Studies conducted by market research institutes show that the majority of consumers are retaining their annual vacation even in the current economic environment.

MAIL ORDER WITH SLIGHT SALES GROWTH – FALL IN DEPARTMENT STORE SALES

In the reporting period, mail order sales increased slightly by 0.3 % in real terms compared with the same period of the previous year. In the October 2007 to September 2008 period, department stores in Germany posted a real decline in sales of 3.6 %.

Outlook

GERMAN ECONOMY IN DECLINE

In their Fall reports, leading German economic research institutes forecasted a further fall in production for the coming months. However, an increase in the real gross domestic product of 1.7 % is expected for 2008.

According to the annual statement compiled in November 2008 by the Expert Panel appraising overall economic development, 2009 will bring a further economic downturn in Germany, our largest market, with economic output stagnating. Due to the weakening state of the global economy, no significant reinvigoration is expected to come from foreign trade. Wages are set to continue to increase and are expected to lead to a moderate rise in available income as the improvement in employment figures comes to an end. Private consumption in 2009 is expected to rise slightly by 0.4 %.

OVERVIEW OF THE 2007/2008 FINANCIAL YEAR

MANAGEMENT BOARD EVALUATION SUMMARY ON ECONOMIC DEVELOPMENT AND GOAL ATTAINMENT

On the capital markets pressure was exerted on the Arcandor Group and Arcandor shares at an early stage in connection with the current economic and financial market crisis because, in the context of pessimistic expectations, it was assumed that the areas of tourism and trade could be impacted in a strong fashion. Despite the difficult environment, Arcandor was able to maintain its position in the 2007/2008 financial year. In total, the three operating divisions – Thomas Cook, Primondo and Karstadt – again increased their adjusted EBITDA. Thomas Cook and Primondo developed well and improved their earnings, while earnings at Karstadt significantly decreased compared to the previous year as a result of the weak economic environment and several internal factors.

SIGNIFICANT EVENTS

Primondo sells NeBus to Andlinger & Company

In October 2007, the NeBus Group was sold to the investment and management group Andlinger & Company. The NeBus Group, which is domiciled in the Netherlands, is a specialist provider of customer retention and sales incentive programs in its home country as well as in Belgium, Germany, France, Italy, the Czech Republic, Switzerland, Slovakia and Spain.

Sale of 51 % interest in neckermann.de

Arcandor AG entered into an agreement on the sale of 51 % of the shares of neckermann.de on December 21, 2007. The buyer is the financial investor SUN Capital Partners, Florida/U.S. The operational management of neckermann.de was transferred to the new majority shareholder as planned. The agreement was closed in March 2008.

Convertible bonds

On December 27, 2007, Arcandor AG exercised the option right to discharge the convertible bond. All the outstanding 1,585 convertible bonds were converted. As a result subscribed capital rose by 23.6 mill. € and the Arcandor AG capital reserve increased by 50.7 mill. €.

Acquisition of Hotels4U.com Limited

On February 14, 2008, the Thomas Cook Group plc closed a purchase agreement with Centurion Holiday Group Limited on the acquisition of a 77.5 % stake in the hotel room provider Hotels4U.com Limited. Thomas Cook Group plc thereby holds over 100 % of the voting rights. The other 22.5 % stake was taken on by the management of the company. Hotels4U.com Limited operates the largest independent hotel portal in Great Britain.

Acquisition of Thomas Cook Egypt, Thomas Cook (India) Limited and brand licenses

With a contract dated March 7, 2008, Thomas Cook Group plc acquired full ownership in Thomas Cook Egypt, brand licenses for 15 countries in the Near East as well as a 54.9 % stake in the listed Thomas Cook (India) Limited from the Dubai Financial Group. On June 20, 2008, Thomas Cook Group plc acquired a further 1.4 % in Thomas Cook (India) Ltd. In connection with the acquisition of the stake in Thomas Cook (India) Limited, a public takeover offer for the acquisition of a further 20 % in the company was made, a stake of 19.08 % of which was confirmed by the Reserve Bank on India on July 4, 2008.

Primondo sells Mode & Preis to AURELIUS

On March 7, 2008, the specialty mail order company Mode & Preis Versandhandels GmbH and its subsidiaries in Slovakia, Slovenia, the Czech Republic and Switzerland were sold to the AURELIUS AG industry holding subject to the outstanding anti-trust decision. The transaction was closed on May 5, 2008.

Thomas Cook share buyback program

On March 12, 2008, at an extraordinary general meeting, the shareholders of the Thomas Cook Group plc resolved a share buyback program totaling 375 mill. €. In the context of this program, Thomas Cook Group plc is to acquire Treasury shares. Parallel to the acquisition of Treasury shares on the stock exchange, Treasury shares will be bought back from Arcandor AG on a pro rata basis. To the reporting date, a total of 48,962,222 shares at an overall price of 165.2 mill. € were acquired by Thomas Cook Group plc on the London Stock Exchange. The program was temporarily suspended on July 11, 2008 and resumed on August 28, 2008.

Sale of 49 % interest in Highstreet

On March 19, 2008, Arcandor AG sold its 49 % stake in the Highstreet real estate company. The buyer is a consortium made up of RREEF Alternative Investments, Pirelli Real Estate, Generali Real Estate Fund S.A. and the Borletti Group. On July 28, 2008, the disposal of the Highstreet Joint Venture GbR was concluded. The proceeds from this transaction were used for restructuring the existing financing.

Acquisition of Elegant Resorts Limited

On April 7, 2008, Thomas Cook Group plc acquired Elegant Resorts Limited, the British luxury travel operator. The acquisition was financed from liquid funds and targets expanding business with independent travel. Elegant Resorts Limited is market leader of luxury travel in Great Britain.

Acquisition of Jet Tours

On June 8, 2008, Thomas Cook made a binding offer to acquire Jet Tours, Paris, France. In connection with the planned acquisition, an exclusive agreement was also concluded with the current owner of the tour operator, Club Med. Jet Tours is a premium tour operator with some 270,000 guests a year. It owns such brands as Jet Tours, Club Eldorador and Austral Lagons. The economic and legal transfer of the company took place in August 2008.

Acquisition of TriWest

On June 9, 2008, Thomas Cook concluded an agreement on the acquisition of TriWest Travel Holdings, Montreal, Canada, a leading independent tour operator with a focus on the North American travel business.

Application for merger of Condor with Air Berlin withdrawn

On July 11, 2008, Thomas Cook Group plc and Air Berlin plc informed the German Competition Authority that they were withdrawing their application for the merger of the Group airline Condor with Air Berlin planned for 2009/2010 due to the considerable change in general economic conditions since the agreement was concluded. The contractual agreement on the acquisition of Condor concluded in September 2007 on the basis of a share swap was terminated by mutual agreement. Thomas Cook is now examining a series of options for its Condor airline.

Issuing of bonds

On July 11, 2008 Arcandor AG issued a non-subordinate unsecured bond with conversion rights in Thomas Cook Group plc shares. The issue volume was 275 mill. € with a duration of five years. The issue price and repayment price at maturity is 100 % of the nominal amount. In the case of exchange, Arcandor may settle the bonds in shares and/or cash.

On June 25, 2008, the Arcandor AG Management Board approved the issue, with the approval of the Supervisory Board. On June 25, 2008, in connection with the bonds, the Arcandor Group concluded hedging transactions to secure the currency and price risks of the convertible bond based on the Thomas Cook share.

New credit facility of 155 mill. €

On September 29, 2008, a credit facility of up to 155 mill. € was signed in order to cover financing peaks in connection with intra-year working capital development.

Capital increase of 59.9 mill. €

On September 29, 2008, a capital increase of 59.9 mill. € was implemented, utilizing Authorized Capital I, by issuing 23,020,552 new no-par value bearer shares. The new shares are issued at their nominal value of 2.56 € per share plus a premium of 0.04 €, with a total value of 2.60 € per share. Entry into the Commercial Register took place on October 23, 2008.

RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

Earnings

Sales and earnings performance

ADJUSTMENTS AND COMPARATIVE FIGURES

The following factors had a strong influence on figures for the 2006, 2007 and 2007/2008 financial years:

- Separate disclosure of discontinued operations and non-current assets classified as held for sale/disposal groups
- Non-recurring factors relating to restructuring and reorientation of the Arcandor Group
- Change in the annual reporting date to September 30
- Acquisitions (50% stake of Deutsche Lufthansa AG in Thomas Cook, merger of Thomas Cook with MyTravel, acquisition of TV channel HSE24)

Alongside the reasons shown, adjustments in the previous year periods also include the change to the accounting of catalog costs and the disclosure of expenses in connection with the sale of accounts receivable (program fees).

The income and expenses of Thomas Cook AG for the period from November 1, 2006 to October 31, 2007 were included in the consolidated financial statements for the year ended September 30, 2007. Up until the complete acquisition of Thomas Cook AG on April 2, 2007, Thomas Cook AG with its subsidiaries was proportionately included at 50%. The period from April 2 to October 31, 2007 was included at 100%. Following the merger of MyTravel with Thomas Cook AG to form Thomas Cook Group plc on June 19, 2007, MyTravel was included at 100%. Due to the seasonal development typical in the tourism industry, characterized by profitable summer months, these months are thus significantly overrepresented in the Group income statement for the 2007 short financial year (100% inclusion of MyTravel plc and Thomas Cook AG).

In 2008, Thomas Cook Group plc changed its financial year to September 30, 2008. As a result of the change in the annual reporting date at Thomas Cook Group plc to the group-wide balance sheet date of September 30, the income and expenses of Thomas Cook for the 2007/2008 financial year are consolidated for the eleven-month period from November 1, 2007 to September 30, 2008.

This means that a comparison of periods in the consolidated income statement, the consolidated cash flow statement and the segment information is only possible to an extremely limited extent.

For a better presentation of the sales and earnings performance, in addition to the legally required information on the 2007 short financial year, the period from October 1, 2006 to September 30, 2007 has also been used as the comparable period for the 2007/2008 financial year (excluding Thomas Cook).

In order to also obtain a comparable basis for sales and EBITDA in terms of content, numerous non-recurring and one-time effects resulting from the restructuring and reorientation of the Arcandor Group were adjusted in the 2007/2008 financial year and for the 2006/2007 period. EBITDA and adjustments do not involve any key figures defined according to IFRS.

The following tables give an overview of adjustments made for sales and EBITDA for each segment.

Reconciliation/Adjusted sales

Amounts shown in mill. €	01.10.2007 – 30.09.2008	01.01.2007 – 30.09.2007
Sales before adjustments	**19,357.5**	N. S.*
Primondo		
Specialty Mail Order	-21.4	-95.7
Services/Management Group	-82.1	-127.3
Other	-18.1	-3.8
	-121.6	**-226.8**
Karstadt		
Closures/Special formats	-54.4	-149.4
Wholesale revenue	-135.6	-242.1
	-190.0	**-391.5**
Operating segments	**-311.6**	**-618.3**
Other segments [1], Reconciliation account/Holding	-31.0	-13.0
Adjustments total	**-342.6**	**-631.3**
Sales adjusted	**19,014.9**	N. S.*

* Not specified (N. S.) because of missing comparability
[1] The Other Segments comprises the segments Services and Real Estate.

Reconciliation EBITDA/EBITDA adjusted

Amounts shown in mill. €	01.10.2007 – 30.09.2008	01.01.2007 – 30.09.2007
EBITDA before adjustments	**364.0**	N. S.*
Thomas Cook		
Costs of integration (severance payments, vacancies etc.)	155.2	N. S.*
Costs of reorganization	43.8	N. S.*
Transaction costs	0.5	N. S.*
Costs of business combinations	19.2	N. S.*
Other	11.2	N. S.*
	230.0	N. S.*
Primondo		
Severance payments	21.0	37.3
Part-time retirement	-13.4	2.6
Costs of reorganization	90.3	196.6
Costs of closure	0.9	4.2
Other	-1.3	-50.8
	97.5	**189.9**
Karstadt		
Severance payments	50.8	3.0
Part-time retirement	11.2	18.0
Costs of reorganization	74.7	14.6
Insufficient cover of rents	6.5	-5.7
Release of provisions	-44.3	N. S.*
Costs of closures	4.7	12.6
Other	3.3	-0.2
	106.9	42.3
Operating segments	**434.4**	N. S.*
Other segments [1] [2], Reconciliation account/Holding	-155.9	-952.3
Adjustments total	**278.5**	N. S.*
EBITDA adjusted	**642.5**	N. S.*

* Not specified (N. S.) because of missing comparability.
[1] The Other Segments comprises the segments Services and Real estate.
[2] Included are profits from the sale of real estate amounting to 239.2 mill. € (previuos year: 911.4 mill. €) .

SALES PERFORMANCE
Adjusted sales by business segment

Amounts shown in mill. €	01.10.2007 – 30.09.2008	01.10.2006 – 30.09.2007*	Change in %	01.01.2007 – 30.09.2007*
Thomas Cook	10,482.0[1]	8,447.8[2]	24.1	8,447.8[2]
Primondo	4,309.8	4,037.5	6.7	2,889.4
Karstadt	4,095.1	4,238.2	-3.4	2,861.6
Operating segments	**18,886.9**	N. S.[3]	-	**14,198.8**
Services	205.6	262.3	-	192.9
Reconciliation account	-77.6	156.3	-	-110.8
	19,014.9	N. S.[3]	-	**14,280.9**

* The data has been adjusted.
[1] Period: November 1, 2007 to September 23, 2008.
[2] Period: November 1, 2006 to October 31, 2007.
[3] Not specified (N. S.) because of missing comparability.

In the 2007/2008 financial year, the operating segments of the Arcandor Group recorded sales of 18.89 bill. €. Owing to the differing inclusion of Thomas Cook in the 2007 short financial year, a comparison with the previous year would not be useful.

For the eleven months of the 2007/2008 financial year, **Thomas Cook** achieved sales of 10.48 bill. €. This figure was impacted by negative effects from the translation of the British pound and capacity reductions, which were partially offset by the positive effects of new acquisitions and by increased sales prices in nearly all segments.

In the reporting period, sales of 3.71 bill. € were achieved in Great Britain and Ireland. The planned 7.5 % reduction in capacity led to a decrease in bookings of 6.8 %. At the same time, sales prices were increased by 4.9 %. The newly acquired companies Thomas Cook (India) Limited, Thomas Cook Egypt, Hotels4U.com Limited and Elegant Resorts Limited had a positive impact on sales.

In Continental Europe, capacities remained largely flexible, while bookings decreased by 1.1 % due to the decline in demand. However, at the same time, average prices increased by 3.0 % against the previous year. The acquisition of Jet Tours S.A. and Neckermann Urlaubswelt GmbH & Co. KG had a positive impact on sales. Overall, the Continental Europe segment generated sales of 4.42 bill. €.

Capacity in Northern Europe was increased by 3.2 %. In addition to an increase in bookings of 3.2 %, the average sales price increased by 8.6 % as against the previous year.

In North America, sales increased significantly due to the acquisition of TriWest Travel Holdings Limited. Including TriWest’s stake, sales of 551.2 mill. € were generated in North America in the eleven months of the 2007/2008 financial year.

In the German Airlines segment the position was reinforced in a difficult 2007/2008 financial year. By cutting the number of aircraft in its fleet to 34, it succeeded in reducing capacity by 4.8%. At the same time, the passenger load factor increased by 2.4%. Average prices increased by 9.6% year-on-year, thereby partially offsetting the higher level of kerosene prices. In the eleven months of the 2007/2008 financial year, sales of 826.5 mill. € were generated in the Airlines segment.

In the 2007/2008 financial year, the **Primondo** segment increased sales by 6.7% to 4.31 bill. € (previous year: 4.04 bill. €). The main drivers of this sales development were e-commerce, the Quelle country companies in Central Eastern Europe, the acquisition of HSE24 and Specialty Mail Order.

Specialty Mail Order generated sales growth of 5.9% in the 2007/2008 financial year. It was particularly the Walz Group and the TriStyle Group which contributed to this result, with sales increases of 9.3% and 6.0% respectively.

In the reporting period, the Quelle Group generated sales growth of 21.5% in international business with its foreign subsidiaries, supported by targeted advertising campaigns. Particular mention should be given to the significant sales increases in Russia (plus 81.1%), Romania (plus 61.1%) and Estonia (plus 26.7%).

Sales of Universal Mail Order Germany lagged behind those of the previous year. This was attributable to the increased previous year basis with purchases brought forward due to value added tax in the fourth calendar quarter of 2006, in particular for products with a high average basket (hardware and electronics). In addition, the reporting period was affected by unsatisfactory Christmas retail business across the whole market in 2007. With strong surges in sales, Quelle strengthened its leading position in the German e-commerce market in the 2007/2008 financial year. However, the large increases in e-commerce did not fully compensate for the structurally declining sales in the traditional catalog and store business.

In the Teleshopping unit in the 2007/2008 financial year, HSE24 was successful in gaining further market shares and increasing sales to 349.2 mill. €, due particularly to an optimized product policy combined with improved services and customer loyalty measures. Numerous TV programs with Quelle products contributed to this (e.g. Küchen-Quelle).

Sales development at **Karstadt** continued to be significantly impacted by the company's repositioning and moderate consumer spending. In addition, temporary falls in sales resulting from large-scale store conversions (3% of sales space) and the controlled discontinuation of sales space (e.g. book departments) had a reducing effect. In the 2007/2008 financial year, Karstadt generated adjusted sales of 4.10 bill. €, representing a year-on-year decline in sales of 3.4%.

Department Store sales fell from 3.50 bill. € by 4.0% to 3.36 bill. €. Positive impulses resulted from taking up new luxury brands in the Karstadt stores which have already changed over to the new business model, and particularly in the Premium Group. However, moderate consumer spending and conversions had a negative impact overall on sales development in the reporting period.

The trend at Karstadt sports in the 2007/2008 financial year was more encouraging, with a slight decline in sales of just 1.3%. The sales downturn resulted particularly from the low demand for winter sports articles caused by the mild winter in the first two quarters of the financial year. This decline was compensated for to a certain extent in the second half of the financial year through attractive product ranges and extensive conversion work in the five largest sports stores.

karstadt.de posted sales growth of 34.4% thanks to intensified online marketing, market growth and the expansion of the product range.

Adjusted sales in the **Services segment** amounted to 205.6 mill. € in the 2007/2008 financial year (previous year: 262.3 mill. €).

EARNINGS PERFORMANCE
EBITDA adjusted by segment

Amounts shown in mill. €	**01.10.2007 – 30.09.2008**	01.10.2006 – 30.09.2007*	Change in mill. €	01.01.2007 – 30.09.2007*
Thomas Cook	623.4 1)	708.6 2)	-85.2	708.6 2)
Primondo	89.7	4.7	85.0	-51.2
Karstadt	-4.2	147.7	-151.9	-34.0
Operating segments	**708.9**	N.S. 4)	N.S. 4)	**623.4**
Other segments 3), Reconciliation account/Holding	-66.4	-86.1	19.7	-75.0
	642.5	N.S. 4)	N.S. 4)	**548.4**

* The data has been adjusted.
1) Period: November 1, 2007 to September 30, 2008.
2) Period: November 1, 2006 to October 31, 2007.
3) The Other Segments comprise the segments Services and Real Estate.
4) Not specified (N.S.) because of missing comparability.

In the 2007/2008 financial year, adjusted EBITDA in the Group's operating segments (Thomas Cook, Primondo and Karstadt) totaled 708.9 mill. € (2007 short financial year: 623.4 mill. €.). Thomas Cook recorded a growth trend in the eleven-month financial year. The Primondo segment posted earnings above the previous year's level thanks to a strong recovery in the second and third quarters. As a result of the weak economic environment and additional charges, Karstadt did not generate earnings at the previous year's level.

In the 2007/2008 financial year (eleven months), **Thomas Cook** generated adjusted EBITDA of 623.4 mill. €. The merger of Thomas Cook and MyTravel resulted in synergies of approximately 182.1 mill. €. The majority of these savings were achieved in Great Britain. These effects more than offset the 170.3 mill. € increase in fuel costs. In the 2007/2008 financial year, Thomas Cook succeeded in improving adjusted EBITDA in almost all segments thanks to its capacity management measures, cost discipline and realized synergies. As a result of the product mix and the increase in average prices, the EBIT margin increased from 3.1% to 4.2%.

The **Primondo** segment recorded adjusted EBITDA of 89.7 mill. € for the 2007/2008 financial year (previous year: 4.7 mill. €). The considerable increase is due primarily to the earnings upturn at the Quelle Group in Germany resulting from positive cost and margin effects. As a result, in the 2007/2008 financial year, Universal Mail Order Germany increased its result by 48.6 mill. € compared to the previous year. HSE24, the home-shopping channel acquired in June 2007, also contributed positively to this improvement thanks to its increased earnings. With adjusted EBITDA of 21.6 mill. €, international activities at Quelle generated significantly improved adjusted EBITDA for the reporting period. Operations in Russia contributed significantly to this, with an earnings increase of 12.6 mill. €. In the 2007/2008 financial year, the earnings situation in Specialty Mail Order was pleasing and adjusted EBITDA increased by 15%.

Overall, as a result of changes to its product mix and increasing sales, Primondo improved its gross income and margin. For the 2007/2008 financial year, the gross margin totaled 51.4% (previous year: 49.6%).

In the 2007/2008 financial year, the year-on-year earnings trend at **Karstadt** was negative. Adjusted EBITDA for the segment amounted to minus 4.2 mill. € (previous year: plus 147.7 mill. €). In particular, the result was negatively impacted by the extra charges from a poor 2007 Christmas period and cost increases resulting from the more difficult general conditions. The management adopted and started implementing an efficiency program designed to relieve the cost structure. The efficiency program includes the cutback of 334 full-time positions at Karstadt headquarters. To optimize structures, this includes trimming the management team and concentrating staff functions.

In addition, the anniversary and sales tax effects of the previous year, combined with the scheduled implementation of the conversions of Karstadt department stores and some sales space thus being temporarily unavailable, negatively impacted earnings in a year-on-year comparison.

In the 2007/2008 financial year, despite the increase in sales tax, the gross margin improved by 0.4 percentage points to 42.7%. Here, concentration on higher value consumer areas was a factor positively impacting the margin.

In the 2007/2008 financial year, **Other segments, Reconciliation account and Holding** recorded an adjusted EBITDA of minus 66.4 mill. € (previous year: minus 86.1 mill. €). The earnings improvement is largely due to delayed settlements for project developments in the Real Estate segment.

Notes to the consolidated income statement

Amounts shown in mill. €	**01.10.2007 - 30.09.2008**	01.01.2007 - 30.09.2007*	Change in %
Sales	19,357.5	14,594.0	32.6
Cost of sales and expenses for tourism services	-12,750.5	-9,638.5	-32.3
Gross income	6,607.0	4,955.5	33.3
Gross income margin in %	*34.13*	*33.96*	-
Operating income	1,114.4	1,595.7	-30.2
Operating expenses	-4,543.1	-3,204.1	-41.8
Staff costs	-2,812.5	-2,162.6	-30.1
Share of sales in %	*14.53*	*14.82*	-
Net interest income	-336.2	-137.7	-144.2
Tax on income	-138.4	-263.7	47.5
Earnings from continuing operations	-700.5	387.8	-
Earnings from discontinued operations	-38.6	-242.3	84.1
Net profit attributable to minority interests	-6.6	-118.9	94.5
Net profit/loss after minority interests	-745.7	26.5	-

* The data has been adjusted.

PRELIMINARY REMARKS

Due to the shift of the financial year to the common date of September 30 across the Group, Thomas Cook Group plc also prepared annual financial statements as at September 30, 2008. This finally completes the conversion to a uniform reporting period from a Group perspective. In this context, the Thomas Cook Group was consolidated in the current period and the given comparative periods as follows:

In the 2007/2008 financial year ending on September 30, 2008, Thomas Cook Group plc was consolidated with an income statement for the eleven-month period from November 1, 2007 to September 30, 2008. In the nine-month comparative period of the preceding year ending on September 30, 2007, the Thomas Cook AG income statement was 50% consolidated for the five-month period from November 1, 2006 to April 1, 2007 and fully consolidated for the seven-month period from April 2, 2007 to October 31, 2007. Since June 19, 2007 MyTravel plc was also fully consolidated with its figures for the period ending on October 31, 2007.

Owing to the changes in the Group structure described above and the consolidation of periods with different seasonality, a comparison of the periods does not apply, and for this reason is also possible only to a very limited extent.

NOTES

In the 2007/2008 financial year, gross income from continuing operations totaled 6.61 bill. € (previous year: 4.96 bill. €). The gross margin for the 2007/2008 financial year totaled 34.1% (previous year: 34.0%).

In the 2007/2008 financial year, **operating income** amounted to 1.11 bill. € (previous year: 1.60 bill. €). Of this amount, 239.1 mill. € relate to income from reversing the revaluation reserve for Highstreet Joint Venture GbR, which was sold in the 2008 financial year. In the 2007 short financial year, operating income includes particularly income from the reversal of inter-company profit and loss elimination totaling 49% of the total profit generated from the sale of real estate assets in 2006 to the value of 911.4 mill. €.

In the reporting period, **operating expenses** increased to 4.54 bill. € (previous year: 3.20 bill. €). Operating expenses were also impacted by the efficiency program adopted by the management for relieving the cost structure of Karstadt and Primondo, as well as higher administrative expenses and selling costs, which were largely due to the first-time 100% consolidation of Thomas Cook Group plc.

Staff costs in the reporting period amounted to 2.81 bill. € (previous year: 2.16 bill. €). This increase was principally caused by the increase in the number of employees due to the first-time 100% consolidation of Thomas Cook Group plc and HSE24. Expenses for partial retirement arrangements and redundancy payments amounting to 85.1 mill. € (previous year: 139.6 mill. €) also negatively impacted staff costs.

In the 2007/2008 financial year, **net interest** income decreased to minus 336.2 mill. € (previous year: minus 137.7 mill. €). In the reporting period, interest expenses (excluding the interest component of additions to pension provisions) increased by 192.7 mill. € year-on-year. The increase in interest expenses was principally caused by financing the complete acquisition of Thomas Cook AG shares over the full twelve months of the financial year, financing the new acquisitions made by Thomas Cook Group plc in the 2007/2008 financial year, and settling financial peaks. In the 2007/2008 financial year, additional interest expenses from debt in connection with the first-time reporting of additional finance lease contracts at Karstadt were also included.

In the 2007/2008 financial year, **income taxes** amounted to 138.4 mill. € (previous year: 263.7 mill. €). Tax expenses resulting from the derecognition of deferred tax assets in connection with the decrease in tax loss carryforwards in Germany due to the shareholder change and a correction of deferred tax assets to losses carried forward.

In the reporting period, **earnings from continuing operations** amounted to 700.5 mill. € (previous year: 387.8 mill. €).

Results from **discontinued operations** relate in particular to expenses and income for the Neckermann Group, and in addition, for the expenses and income in the previous year for Quelle Region West (France and Spain) and the Specialty Mail Order companies that no longer form part of the Group's core business. By the end of the first half of the 2007/2008 financial year, all companies in discontinued operations had been sold. In the reporting period, results from discontinued operations totaled minus 38.6 mill. € (previous year: minus 242.3 mill. €).

In the 2007/2008 financial year, the Arcandor Group generated consolidated **earnings after minority interests** of 745.7 mill. € (previous year: 26.5 mill. €).

Financial position and net assets

INVESTMENTS

Investments by segment*

Amounts shown in mill. €	01.10.2007 - 30.09.2008	01.01.2007 - 30.09.2007	Change in %
Thomas Cook	160.2	93.0	72.3
Primondo	98.6	91.5	7.7
Karstadt	131.2	62.3	110.8
Operating segments	**390.0**	**246.8**	58.0
Other segments	5.0	5.2	-3.8
Holding	2.0	3.0	-33.3
	397.0	**255.0**	55.7

* Not including additions to finance leases, capitalized restoration liabilities or goodwill.

Depreciation and amortization (not including amortization of goodwill)

Amounts shown in mill. €	01.10.2007 - 30.09.2008	01.01.2007 - 30.09.2007	Change in %
Thomas Cook	280.6	243.5	15.2
Primondo	68.7	49.0	40.2
Karstadt	161.2	75.3	114.1
Operating segements	**510.5**	**367.8**	38.8
Other segments	16.0	19.3	-17.1
Holding/Reconciliation account	2.3	1.9	-
	528.8	**389.0**	35.9

In the 2007/2008 financial year, the investment volume (excluding finance leasing and goodwill) in the Arcandor Group increased to 397.0 mill. € (previous year: 255.0 mill. €). In addition to the short financial year 2007, this increase was principally due to the full consolidation of Thomas Cook Group plc for the first time over a complete financial year and increased capital expenditure for modernizing Karstadt branches. At the same time, depreciation and amortization expenses in the Arcandor Group increased by 139.9 mill. € to 528.9 mill. € (previous year: 389.0 mill. €).

At **Thomas Cook**, capital expenditure totaled 160.2 mill. € (previous year: 93.0 mill. €). This related primarily to adjustments and new developments in IT systems. Capital expenditure was also made in aircraft (general inspections) and technology, to a lesser extent.

Depreciation and amortization in the Thomas Cook segment also includes amortization of the fair value adjustments of the purchase price allocation. In the 2007/2008 financial year (eleven months), the only slight decline in amortization and depreciation in comparison to the 2007 short financial year (twelve months) is due largely to the expiry of amortization on intangible assets (e.g. order backlog) and to a lesser extent to foreign exchange rate effects.

Capital expenditure in the **Primondo** segment, which amounted to 98.6 mill. € (previous year: 91.5 mill. €), primarily related to the continued systems development and to a lesser extent to the infrastructure of the mail order-related service companies. In the twelve-month reporting period, as a result of the largely completed restructuring measures in the Service segment, Primondo's capital expenditure was only slightly greater than in the nine-month reporting period of the previous year.

In the **Karstadt** segment, capital expenditure of 131.2 mill. € (previous year: 62.3 mill. €) related to product line presentation and store modernization measures. In this respect, in the 2007/2008 financial year, the conversion of Karstadt store on Mönckebergstrasse in Hamburg was completed and the Limbecker Platz and Forum shopping malls were opened, in Essen and Duisburg respectively, in which Karstadt will operate modern department stores as the anchor tenant. Further capital expenditure was also made in the FORWARD enterprise resource planning system and other IT systems.

The increase in depreciation and amortization in the Karstadt segment is due largely to amortization of capitalized lease objects.

CASH FLOW STATEMENT – abridged –

Amounts shown in mill. €	01.10.2007 - 30.09.2008	01.01.2007 - 30.09.2007*
Cash flow from operating activities	-47.8	44.5
Cash flow from investing activities	-157.8	-352.0
Cash flow from financing activities	254.9	304.7
Changes in cash and cash equivalents affecting cash flow	**49.3**	**-2.8**
Changes in the cash flow due to changes in exchange rates	-15.7	-14.7
Cash and cash equivalents at the beginning of the period [1]	1,149.7	1,167.2
Cash and cash equivalents at the end of the period [1]	**1,183.3**	**1,149.7**

* The data has been adjusted.
[1] The composition of cash and cash equivalents was adjusted in accordance with IAS 8.41ff. to match IAS 7.7 requirements.

In the 2007/2008 financial year, cash flow from operating activities was minus 47.8 mill. €. In particular, a factor having a positive effect on cash flow from operating activities was the change in working capital due largely to the seasonal increase in trade payables in the Tourism segment. The changes in other assets/liabilities are essentially due to concluding new currency and fuel hedging transactions at Thomas Cook.

In the 2007/2008 financial year, cash flow from investing activities was minus 157.8 mill. €. Cash inflows in the amount of 61.8 mill. € were offset by investments in intangible assets and property, plant and equipment in the amount of 413.7 mill. €. In addition, 398.8 mill. € was paid for acquiring subsidiaries. Payments received from divestment of subsidiaries totaled 433.4 mill. €. From the sale of current securities payments of 204.2 mill. € were generated.

The cash flow from financial activities of 254.9 mill. € is due largely to the loans assumed for financing the new acquisitions by Thomas Cook Group plc and also to payments made in connection with the share buyback program as well as interest and pensions paid.

BALANCE SHEET STRUCTURE

Amounts shown in mill. €	30.09.2008	30.09.2007*	Change in %	30.09.2008 in %	30.09.2007* in %
Balance sheet total	**14,009.1**	**14,103.5**	-0.7	**100.00**	**100.00**
Assets					
Intangible and tangible assets	7,035.7	6,395.4	10.0	50.22	45.35
Other non-current assets	1,504.1	1,406.8	6.9	10.74	9.97
Inventories	1,366.9	1,288.7	6.1	9.76	9.14
Trade receivables	715.1	685.9	4.3	5.10	4.86
Other current assets	3,046.2	3,135.2	-2.8	21.75	22.23
Assets classified as held for sale	341.1	1,191.5	-71.4	2.43	8.45
Equity and liabilities					
Equity and liabilites	1,230.2	2,410.3	-49.0	8.78	17.09
Pension provisions	977.6	1,024.6	-4.6	6.98	7.26
Non-current financial liabilities	1,903.8	1,191.0	59.8	13.59	8.44
Other non-current liabilities	1,416.8	1,950.7	-27.4	10.11	13.83
Current financial liabilities	1,610.9	1,276.2	26.2	11.50	9.05
Trade payables	3,216.5	2,671.1	20.4	22.96	18.94
Other current liabilities	3,457.6	3,011.7	14.8	24.68	21.36
Liabilities from assets classified as held for sale	195.7	567.9	-65.5	1.40	4.03

* The data has been adjusted.

Total assets of the Arcandor Group decreased by 0.7 % year-on-year to 14.01 bill. € (September 30, 2007: 14.10 bill. €). This is primarily due to capitalizing tangible assets from finance leases in the Karstadt segment and concluding financial instruments for hedging currency and fuel transactions in the Thomas Cook segment. Total assets were mainly reduced by the disposal of the Neckermann Group.

Assets

Non-current assets amounted to 8.54 bill. € at the balance sheet date (previous year: 7.80 bill. €). The 9.5 % increase is due primarily to the first-time capitalization of individual finance leases at Karstadt as a result of rent increases in 2008, measurement of currency and fuel hedging transactions at fair value and the capitalization of the 49 % stake in Neckermann Holding B.V.

Additions to intangible assets (particularly goodwill) in connection with the acquisition of Hotels4U.com Limited, Thomas Cook (India) Limited and Elegant Resorts Limited by Thomas Cook Group plc were compensated for by negative translation differences (particularly GBP/EUR) for capitalized intangible assets (goodwill, trademarks, customer bases, order books and other intangible assets).

Current assets (including inventories) increased slightly to 5.13 bill. € (previous year: 5.11 bill. €). The increase resulted largely from the currency and fuel hedging transactions concluded during the 2007/2008 financial year which were reported at fair value. A contrary effect resulted from payments made by Thomas Cook Group plc to acquire Hotels4U.com Limited, Thomas Cook (India) Limited, Elegant Resorts Limited and from the share buyback program.

The reduction in assets classified as held for sale is due to the disposal of the Neckermann Group, the NeBus Group and the Mode & Preis Group.

Equity and liabilities

At the end of the 2007/2008 financial year, **equity** amounted to 1.23 bill. € (previous year: 2.41 bill. €). As a result, the equity ratio decreased from 17.1% in the previous year to 8.8% at the balance sheet date. The decrease in equity is due principally to the negative result in the reporting period and is additionally impacted by negative differences from foreign currency translation (GBP/EUR). As at September 30, 2008, equity contains additions of 74.3 mill. € from exercising the option right to discharge the convertible bond, and 59.9 mill. € from a payment made before the reporting date for a capital increase.

The increase in **non-current debt** (including pension provisions) by 3.2% to 4.30 bill. € (previous year: 4.17 bill. €) resulted primarily from the increase in liabilities from finance leasing contracts, which were recognized at the time of initial reporting corresponding to capitalized lease property at fair value or the lower present value of the lease payments. The other non-current liabilities decreased significantly due to the reclassification of typical silent partnerships between II. KarstadtQuelle Mitarbeitertrust e. V. and Primondo Specialty Group GmbH into current liabilities due to the remaining term.

Current debt increased by 1.33 bill. € to 8.29 bill. € (previous year: 6.96 bill. €). This increase was caused by the inclusion of loans payable largely for financing the acquisition of Hotel4U.com Limited, Thomas Cook (India) Limited and other new acquisitions by Thomas Cook Group plc, and increased trade payables in the Thomas Cook segment. The other current liabilities increased primarily due to the reclassification of typical silent partnerships between II. KarstadtQuelle Mitarbeitertrust e. V. and Primondo Specialty Group GmbH from non-current liabilities due to the remaining term.

The reduction in liabilities related to assets classified as held for sale is due to the disposals of the Neckermann Group, the NeBus Group and the Mode & Preis Group.

KEY FIGURES ON FINANCIAL SITUATION

		30.09.2008	30.09.2007*
Equity	mill. €	1,230.2	2,410.3
Equity ratio	in %	8.8	17.1
Equity-to-fixed-assets ratio	in %	16.7	36.3
First-degree liquidity	in %	13.7	16.0
Second-degree liquidity	in %	24.5	31.5
Third-degree liquidity	in %	41.0	50.0
Working capital	mill. €	-1,109.5	-567.5

* The data has been adjusted.

The equity-to-fixed assets ratio reveals the extent to which non-current assets are covered by equity.

Liquidity ratios represent the ratio between liquid funds of different types and urgency of payment. First-degree liquidity gives the ratio of liquid funds to current liabilities and allows for an analysis of the extent to which a company can meet its current payment obligations through its liquid funds alone. Second-degree liquidity indicates the ratio of financial assets to a company's current liabilities. Here, in addition to cash and cash equivalents, current securities and trade receivables are included in cash assets. Third-degree liquidity indicates the ratio of current assets to a company's current liabilities.

WORKING CAPITAL

Amounts shown in mill. €	30.09.2008	30.09.2007	Change in %
Inventories	1,366.9	1,288.7	6.1
Trade receivables [1]	874.9	932.4	-6.2
Trade payables [2]	-3,351.3	-2,788.6	20.2
	-1,109.5	**-567.5**	-95.5

[1] Including non-current trade receivables.
[2] Including non-current trade payables.

At the balance sheet date, working capital totaled minus 1,109.5 mill. € (September 30, 2007: minus 567.5 mill. €). This decline was driven by the increase in trade payables relating to the balance sheet date in the tourism segment.

FINANCING POSITION

Amounts shown in mill. €	30.09.2008	30.09.2007	Change in %
Non-current financial liabilities	1,020.3	511.1	99.6
thereof from discontinued operations	80.7	13.0	-
Current financial liabilities	1,451.4	1,155.3	25.6
thereof from discontinued operations	100.2	0.5	-
Gross financial liabilities	**2,471.7**	**1,666.4**	48.3
Cash & cash equivalents and securities	1,345.7	1,516.4	-11.3
thereof from discontinued operations	27.8	10.7	159.9
Other financial instruments*	324.2	335.4	-3.3
thereof from discontinued operations	87.8	4.6	-
Net financial liabilities/assets	**801.8**	**-185.4**	-
Finance leases	**1,259.0**	**814.3**	54.6

* Other financial instruments include purchase price receivables and issued loans.

At the balance sheet date, net financial debt of the Arcandor Group totaled 801.8 mill. € (previous year: assets of 185.4 mill. €). The increase in financial debt is largely due to concluding and utilizing a new credit facility of 1.8 bill. € by Thomas Cook. The purpose of this facility is to discharge current debts, and also to finance the acquisition of Hotels4U.com Limited, Thomas Cook (India) Limited and other new acquisitions by Thomas Cook Group plc. In addition, the share buy back program of Thomas Cook Group plc reduced the level of cash and cash equivalents.

As a result of a change to rents in the Karstadt segment, liabilities from finance leasing contracts increased corresponding to capitalized lease property at fair value or the lower present value of the lease payments.

The Arcandor Group defines financial debt or financial assets as the balance of interest-bearing liabilities, other financial instruments, securities and cash and cash equivalents. This does not include silent partnerships under the terms of contractual trust arrangements (CTA), as the interest from these partnerships is profit-based and they are available to the relevant beneficiaries among the Group's employees.

NON-FINANCIAL PERFORMANCE INDICATORS

Employees

Employees at the balance sheet date*

Number	30.09.2008	30.09.2007	Change in %
Thomas Cook	34,290	32,286[1)]	6.2
thereof international	29,542	27,794[1)]	6.3
Primondo	19,209	21,332	-10.0
thereof international	3,624	4,024	-9.9
Karstadt	32,352	33,682	-3.9
Operating segments	**85,851**	**87,300**	-1.7
thereof international	33,166	31,818	4.2
Other segments	422	472	-10.6
thereof international	81	24	237.5
Total	**86,273**	**87,772**	-1.7
thereof international	**33,247**	**31,842**	4.4

* Including trainees, not including discontinued operations.
1) Data as of October 31, 2007.

As at September 30, 2008, the number of employees in the Arcandor Group decreased by 1.7 %, equivalent to 1,499 employees, against the previous year's reporting date. As at September 30, 2008, the number of employees in the operating segments decreased by 1.7 % from 87,300 employees to 85,851 employees.

In terms of FTEs, the number of employees remained almost at the previous year's level. The number of people employed outside Germany increased by 6.8 % to 30,401 as at the reporting date.

Full-time employees at the balance sheet date*

Number	30.09.2008	30.09.2007	Change in %
Thomas Cook	31,264	29,070[1)]	7.5
thereof international	27,102	25,032[1)]	8.3
Primondo	15,606	16,837	-7.3
thereof international	3,226	3,405	-5.3
Karstadt	23,195	24,304	-4.6
Operating segments	**70,065**	**70,211**	-0.2
thereof international	30,328	28,437	6.6
Other segments	378	426	-11.3
thereof international	73	21	247.6
Total	**70,443**	**70,637**	-0.3
thereof international	**30,401**	**28,458**	6.8

* Including trainees, not including discontinued operations.
1) Data as of October 31, 2007.

"PACT FOR THE FUTURE" AGREED

In October 2008, the Management Board, the members of Group Works Council, and the trade union ver.di agreed on the details of the design of the "Pact for the Future". In this way, the company will save 115 mill. € p.a. in staff costs in the next three years and thereby increase its competitiveness.

It is not planned to cut jobs as part of the "Pact for the Future". Occasional adjustments required in individual companies remain an exception from this. Employees should participate in the positive economic development. The details of this are still being negotiated.

In the context of the Pact, members of the Management Board, executives and employees will each make a contribution in line with their hierarchical level in the company. Employees with a yearly salary of 18,000 € or less (on a full-time basis) do not have to make a contribution. This also applies to employees who have already made particular contributions to competitiveness in the context of the reorganization of logistics and customer centers (Primondo Group) in the last year. The average percentage of salary that employees to whom the "Pact for the Future" applies relinquish is between 7 % and 12 % of annual income. Executives contribute 20 %, members of the Management Board 30 % of annual income.

Included in the "Pact for the Future" are Karstadt Warenhaus GmbH, with approximately 30,000 employees, the Primondo Group with approximately 10,000 employees, and the few hundred employees of Arcandor Holding including the Corporate Service Group. The parties have worked out individually adjusted solutions which take account of the conditions in the individual companies.

DIVERSITY AS OPPORTUNITY

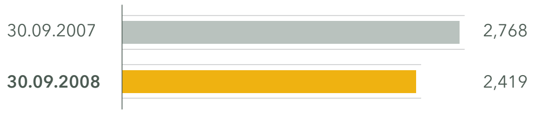
We see the cultural diversity of our international workforce as a great opportunity. In June 2008, Arcandor signed the "Charta of Diversity" and thereby underlined its aim of creating a working environment that is free of prejudice and conveys appreciation to all employees regardless of gender, race, nationality, ethnic origin, religion or ideology, disability, age, sexual orientation and identity.

TRAINING AS A COMMITMENT TO THE FUTURE

We believe that training young people plays an important and central role. The high quality of our training programs is paying off for our trainees on their personal career path and is securing us a competent future workforce. Traditionally, Karstadt trains far more staff than its own demand. As at the reporting date, a total of 1,644 trainees were employed at Karstadt.

As a result of the training push at Karstadt in 2006, a large number of trainees completed their apprenticeships in the course of the financial year.

Trainees at the balance sheet date
Number



THOMAS COOK

Over the course of the reporting year, the number of full-time employees increased by 2,194 to 31,264 as at the reporting date. 86.7 % of these employees are employed outside Germany. The staff cuts caused by the merger with MyTravel were offset by the acquisition of the following companies during the reporting period: TriWest Travel, Hotels4U.com, Jet Tours, Neckermann Urlaubswelt, Thomas Cook India and Egypt.

The merger with MyTravel in 2007 was a great challenge which also made staffing adjustments necessary. In the transition phase, which lasted until the second quarter of 2008, Thomas Cook supported its employees with changes of location and role as much as possible.

PRIMONDO

The number of full-time employees as at the balance sheet dated decreased by 1,231. The proportion of staff employed abroad was 20.7 %.

The decline in the number of full-time employees is largely due to staff cut backs/closures at/by call centers and closures of Fox markets. By September 2009, the Nuremberg-based logistics service provider servicelogiQ will discontinue operations. In total, approximately 600 jobs will be cut back in stages. However, competitive structures were developed again in the Leipzig dispatch center, particularly as a result of an extension of weekly working hours to 42 hours. In the Nuremberg-Fürth area, approximately 500 jobs in returns operations were secured initially for two years by extending weekly working hours. In return, employees receive a guaranteed job for this time, and the location itself is initially secured for three years.

KARSTADT

As at the September 30, 2008 reporting date, the number of full-time employees declined by 1,109.

On August 1, 2008, due to Karstadt Warenhaus GmbH's unsatisfactory earnings trend, the new management team started a comprehensive efficiency program to relieve the cost structure considerably. The target includes trimming management staff and realigning purchasing, linked with concentrating the supplier base. Parallel to this, optimizing the marketing mix and reducing logistics and IT costs were pursued. The efficiency program also comprises the cutback of 334 full-time positions at Karstadt headquarters. To optimize structures, this includes trimming the management team and concentrating staff functions.

A THANK YOU TO OUR STAFF AND COMMITTEES

The Management Board would like to thank all employees, in Germany and abroad, for their high level of commitment and expertise. Our thanks also go to all of the works councils, the members of the Group Works Council and spokespersons' committees, as well as the youth and trainee representatives for the spirit of confidence and cooperation that we have enjoyed over the past year. This has been a key factor in the success of the "Pact for the Future", the efficiency program, and subsequently, in securing the future of the Arcandor Group.

Sustainability

SUSTAINABILITY AT ARCANDOR

It is Arcandor AG's aim to create sustainable development for the Group, as well as for the environment and society. Therefore, social and economic targets are being integrated into business policy.

SUSTAINABILITY REPORT 2007/2008

After the change in name in 2007, Arcandor published its first Group-wide Sustainability Report entitled "Stability in times of change" in October 2008. It follows the international guidelines of the Global Reporting Initiative (GRI) and the principles of the United Nations Global Compact, as well as the requirements of sustainability-oriented ranking and rating agencies, our employees and external stakeholders. The next Sustainability Report will build upon this one and be published in 2010.

Targets and measures for 2008/2009 are presented in the extensive sustainability programs of Arcandor, Thomas Cook, Primondo and Karstadt, and are available to download from www.arcandor.com/de/nachhaltigkeit.

SUSTAINABILITY MANAGEMENT

In July 2008, the Arcandor AG Management Board approved a new organization structure for Group-wide sustainability management and agreed upon and defined new fields of activity in the area of sustainability. Annual sustainability targets are determined for the areas "Product range – Services – Supplier management", "Customers", "Environment" and "Employees", which then have a significant influence on the direction of the sustainability strategy. The Social Affairs department is assigned the task of coordinating the topic of sustainability by the Group's Management Board for Social Affairs. It acts as the interface between the finance holding, the Sustainability Council and the operating business units.

OUR CUSTOMERS AND OUR RESPONSIBILITY IN THE SUPPLY CHAIN

The customer is the key to success and is the centre point at Arcandor. For this reason, service and customer contact are both top priorities. Topics such as product responsibility, product quality and a sustainable supply chain are some of the key objectives of our sustainability management. Therefore, the Arcandor Procurement Guidelines/Code of Conduct (CoC) are a permanent part of our contracts with suppliers in important procurement markets. They are based upon internationally recognized conventions of the UNO and the ILO. In addition, Arcandor has been a part of the Business Social Compliance Initiative (BSCI) since 2004 in order to check that suppliers in fast growing export-oriented countries in Asia and Eastern Europe comply with minimum social standards. 52 % of import volume from risk countries was audited last year. By 2010, approximately 90 % of imports from risk procurement markets are to be taken from suppliers which have been socially audited.

GLOBAL COOPERATION WITH LI & FUNG

Since Arcandor's disposal of its international procurement organization to the Hong Kong trading firm Li & Fung in Fall 2006, this firm has been responsible for parts of the merchandise procurement process as an exclusive agent in important import countries. Along with the selection and supervision of suppliers, their tasks include following up placed orders, monitoring product quality, documenting compliance with social standards, and communicating with the supplier directly in the appropriate language. Priorities are put into place together with Li & Fung to monitor the supplier portfolio and check the implementation and improvement status of social standards on a regular basis. However, strategic objectives and the focus on particular product groups or markets still come from our Group headquarters and are the result of Arcandor's official responsibility for supplier management.

DEALING WITH OUR ENVIRONMENT RESPONSIBLY

Dealing with our environment in a responsible way continues to be a central topic at Arcandor. Energy consumption, energy efficiency and climate protection have become everyday tasks. As a result, Arcandor sets the highest ecological benchmarks on its selection of packaging materials and disposal management, as well as on effective fleet management when it comes to logistics and mobility. Furthermore, Arcandor reduced its CO_2 emissions by 17,776 tons compared to the previous year. Despite this positive development, further reductions of our CO_2 emissions are the focus of our environmental management.

SUSTAINABLE TOURISM

Thomas Cook attaches utmost importance to providing package tours that are as environmentally friendly as possible. Working together with the British Federation of Tours Operators (FTO) and other partners, they have developed the "Travellife" criteria. Independent experts examine and evaluate the sustainability of hotels and other tourism service providers using these criteria. The "Travellife Sustainability Award" is awarded to hotels that achieve a particularly good evaluation. By drawing attention to the award in the catalog, customers have the possibility to select a particularly sustainable offer.

CO_2 COMPENSATION AT THOMAS COOK

Thomas Cook's aircraft fleet consists of some of the world's most modern and efficient aircraft. In 2009, Condor is to equip its entire long-haul fleet with the newest aerodynamic winglets on the market. By extending the wings by two meters, aircraft will be quieter and kerosene consumption and emissions significantly reduced. There will be fuel savings of approximately 1,300 tons of kerosene a year per airplane. The investment is 20 mill. €. Since March 2008, the German airline has been offering the opportunity to compensate for the emissions resulting from air travel by donating to "atmosfair".

SUSTAINABLE AND HEALTHY RANGE AT PRIMONDO

As one of the providers generating the highest sales in the German textile industry, Quelle considers itself to have a particular responsibility to its customers and to the environment. The furniture range offers numerous products with the environmental "Blue Angel Mark" and the official seal of the Forest Stewardship Council (FSC) for sustainable forestry. The online shop "Ökologisch Wohnen" established in 2007 provides inspiration about how to furnish a home in an environmentally friendly way. In the Spring/Summer 2008 catalog, soft furnishings from organically grown cotton were offered on multiple pages for the first time. Quelle pays particular attention to low energy and water consumption levels in their range of electrical goods.

QUELLE FOLLOWS HOLISTIC APPROACH TO CLIMATE PROTECTION

Since 2007 the company has been developing a general concept for climate protection. All activities concerning climate protection have been combined and focus on three key points:

- Internal climate protection
- Climate protection in the product range
- Raising awareness with accompanying communication

SUSTAINABILITY AT KARSTADT

Karstadt Warenhaus GmbH is now one of the largest suppliers of organic products on the German market. Under the umbrella brand name "BIO-logisch", a great number of organic articles are available to customers. These were produced in accordance with the requirements of the European Union and without using chemical pesticides or genetic engineering.

As a partner of the initiative TransFair e. V., Karstadt has been offering fairly traded products in its food halls since 1993. Fair trade supports disadvantaged workers and farmers in developing countries in Africa, Asia and Latin America, and improves their working and living conditions.

Karstadt follows two central paths to protect the climate:

- Continuous investment in logistics optimization
- Investment in modern building engineering

The Karstadt campaign "Household energy efficiency" was awarded a prize by German UNESCO as an official project for the world decade 2007/2008. As a result, Karstadt is the only retail company to be honored by UNESCO. This award and the positive public response also encourage us to continue with our climate protection campaign in the future.

Since October 2008, Karstadt has been involved in environmental partnerships in eight German states. The company has been the official environmental partner of the town of Essen since 1998.

DEPENDENT COMPANIES REPORT

The Management Board of Arcandor AG assumes that the Company has been dependent on its partners in a voting rights pool within the meaning of section 312 of the German Stock Corporation Act since December 11, 2001. As of 28 September 2008, the voting rights attributable to Arcandor AG amounted to 53.32 %.

The following parties are members of the voting rights pool:

- Madeleine Schickedanz
- Madeleine Schickedanz Vermögensverwaltungs GmbH & Co. KG
- Leo Herl
- Grisfonta AG
- Martin Dedi
- Martin Dedi Vermögensverwaltungs GmbH & Co. KG

Accordingly, the Management Board has prepared a dependent companies report for the 2007/2008 financial year containing information on all of the relationships between the Company and the members of the voting rights pool. This dependent companies report was issued with an unqualified audit opinion by BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf.

The statement by the Management Board at the end of the report reads: "Our Company has not conducted any legal transactions or taken or failed to take any measures that it is required to report."

REPORT ON POST-BALANCE SHEET DATE EVENTS

"PACT FOR THE FUTURE" AGREED

In October 2008, a "Pact for the Future" was agreed between the Management Board, the members of the Group Works Council and the trade union ver.di. The "Pact for the Future" plans savings in staff costs of 345.0 mill. € over the next three years in the Primondo, Karstadt and Arcandor Holdings segments.

REGISTRATION OF CAPITAL INCREASE

On October 23, 2008, the capital increase concluded on September 28, 2008 was entered into the Commercial Register.

NEW COMPOSITION AND NEW CHAIRMAN OF THE SUPERVISORY BOARD

Effective at the close of October 31, 2008, Mr. Hero Brahms and Mr. Juergen Schreiber resigned their positions as members of the Supervisory Board for personal reasons. The District Court of Essen appointed Mr. Friedrich Carl Janssen and Dr. Hans-Jochem Lüer as members of the Supervisory Board to represent the shareholders on November 9, 2008. In its meeting on November 13, 2008, the Supervisory Board elected Mr. Friedrich Carl Janssen as its Chairman.

CURRENT LOANS GRANTED

On November 3, 2008, Sal. Oppenheim jr. & Cie. KGaA provided Arcandor AG with a loan of 20 mill. €. The loan has a term of five months.

CHANGES TO THE ARCANDOR AG MANAGEMENT BOARD

On November 28, 2008, the Management Board of Arcandor AG was restructured. The Supervisory Board appointed Mr. Stefan W. Herzberg and Mr. Rüdiger Andreas Günther to the Management Board effective from December 1, 2008. Mr. Günther is to replace the current CFO Dr. Peter Diesch, who is resigning from the Management Board as of December 31, 2008. In addition, Mr. Professor Helmut Merkel is leaving the Management Board effective from December 31, 2008.

On December 4, 2008, the Arcandor AG Supervisory Board appointed Dr. Karl-Gerhard Eick as new Chairman of the Arcandor AG Management Board with effect from March 1, 2009. To the same date, Dr. Thomas Middelhoff will relinquish his mandate as Chairman of the Management Board.

QUELLE ACHIEVES RECONCILIATION OF INTERESTS

At the end of November 2008, the Quelle GmbH management came to an agreement with the Works Council on a reconciliation of interests and a social plan. These foresee an adjustment of personnel capacity. The resulting financial obligation is estimated at 30 mill. €.

RISK REPORT

Preliminary remarks

The 2007/2008 risk report analyses and discusses the "material" risks and "risks requiring monitoring" that are currently identifiable within the Arcandor Group. It has been prepared on the basis of the legal Group structure at the reporting date.

Risk management system

Arcandor AG operates in the tourism (Thomas Cook), mail order (Primondo) and over-the-counter retail (Karstadt) segments. These activities offer opportunities and inherent risks, which manifest themselves in different ways depending on the type of business model. Risks can result from internal business actions as well as from external factors. To control opportunities and risks actively and in good time, a Group-wide fully comprehensive risk management system has been implemented. In May 2008, the Arcandor Group implemented a Group-wide risk management IT system, "R2C", as technical support for the risk management process. The recording of risk takes place independently with the help of the web client.

Risk management policies

The risk policy of the Arcandor Group is based on the aims of constantly increasing the value of the Company in a sustainable way, achieving the medium-term financial objectives and ensuring the continuity of the Company in the long term. As a result, risk management is a significant and integral part of company policy where opportunities are to be utilized and risks recognized and limited at an early stage. They are then adjusted to the respective segment-specific business model.

Risk management process

Arcandor AG's risk management system is comprised of many elements which are incorporated into the structural and process organization of the Group companies. The Group's Risk Manager promptly informs the Management Board of Arcandor AG on a regular basis about material developments in risk management.

The risk management process of Arcandor AG is based on the following key pillars:

- The internal control system
- Daily, weekly and monthly reporting (in particular Controlling, Treasury and operating KPI reports)
- A half-yearly (quarterly as of the 2008/2009 financial year) risk inventory

These are used as a basis for the preparation of the annual risk report.

The coordination of risk management is carried out at Group level by the Group Risk Committee and Group Controlling as its representative. It prepares the risk report on the basis of the current risk inventory and reports to the appropriate bodies on the Management Board and the Supervisory Board. The tasks taken on by the central Risk Officers and committees include both the organization of meetings to exchange information and the application of risk guidelines. They coordinate Group-wide recognition, systematic evaluation and the aggregation of risks, and prepare a Group risk portfolio that allows a Group-wide overview of risks and opportunities at Arcandor AG.

The responsibility for the management of risks and opportunities is explicitly regulated at Arcandor AG and are oriented to the structure of the Group. Accordingly, the control of risks and opportunities in operating business is the responsibility of the appropriate operating management of the consolidated companies, and monitoring is the mandate of Arcandor AG. The process is then coordinated and supported by the Group Risk Committee and Risk Officer as well as by the supporting Segment Risk Committees and representatives.

The results are discussed by the Management Board, Audit Committee and Supervisory Board on a regular basis.

Risk transfer

As part of risk management, risks are also protected outside the Group. In the case of damage and liability risks in day-to-day business, insurance policies were concluded where possible and economically practicable. Property and liability insurance as is usual in this industry exist in the Group, as well as corresponding insurance for aviation.

We manage risks from fluctuations in exchange rates and subscription prices for significant primary products (e.g. kerosene) on the basis of corresponding financial market products.

All instruments to transfer risk are actively examined and adjusted on a regular basis.

Risks from market trends and operating risks

The restructuring in the tourism division in the past year, in particular the acquisition of MyTravel, served to increase the international nature of the Arcandor Group’s business activities further, as well as giving a significantly higher weighting to the tourism industry.

Accordingly, the Group’s business development as well as its earnings are now dependent on tourism related activities to a greater extent than previously, and hence is exposed to the associated risks, such as terrorism, war, environmental disasters, etc. The Group’s activities in the tourism segment are focused on Germany, the United Kingdom and Scandinavia, and are affected by the demand situation and domestic economic development in these regions.

Germany is the largest sales market for the “Primondo” and “Karstadt” segments. In order to stimulate local consumer demand and achieve the set targets, the Group intends to press ahead with the projects it has initiated, such as category management, theme-based marketing campaigns and sales controlling.

In order to ensure secure results, even against the backdrop of the noticeably worsening economic environment, all structures and processes are currently being analyzed and improvement measures developed. In addition, an efficiency increasing program was initiated with the aim of trimming management staff and securing a not inconsiderable cost saving and liquidity improvement in the coming years. The employees are also taking part in this program by relinquishing part of their salary.

However, other factors may also have a negative impact on the quality of the Group’s earnings forecasts. For example, it may not be possible to ensure the availability of goods at all times. This might be due to late deliveries by third parties on which the Group depends or the misjudgment of the required quantities of goods or of market or fashion trends and seasonal cycles. In addition, financial risks can occur with suppliers due to the current bank and financial market crisis, which negatively affect their ability to supply. The Group aims to combat these developments through the continuous observation of business developments, systematic product line analysis and planning, and careful supplier selection.

Stationary retail sales, mail order and tourism are subject to increased business risk as a result of changing consumer behavior, growing competitive pressure and the emergence of alternative forms of product offering in particular. The Arcandor Group aims to counteract this intensified competitive situation through diversification into new business types, with the flexible use of sales campaigns and the realignment and expansion of its business segments.

As a further measure for risk diversification, the internationalization is also continuing to progress. One of the measures is additional M&A activities. In the Thomas Cook segment, we are further expanding business in the Canadian, French and Indian markets. In the Primondo segment, we are generating new business, especially in the high-growth Central and Eastern European markets through the Group's own companies. This internationalization offers the possibility of offsetting fluctuations in demand in the individual countries. On the other hand, economic, legal or political risks must also be considered in other countries.

Due to the current global financial crisis, economic forecasts for the development of domestic demand as well as consumer behavior and the propensity to travel in our key markets range from low growth to stagnation or recession.

Due to these imponderables, the sales, earnings and operating cash flow targets included in our planning are also subject to risk.

Risks relating to the realignment of the business segments and restructuring

The Thomas Cook and MyTravel merger is progressing as planned. The successful implementation of the complex integration process is naturally subject to a degree of risk.

The realignment of the existing business segments relates in particular to the retail segments of the Arcandor Group, i.e. Karstadt and Primondo. In the area of stationary sales, the Group is focusing in particular on the realignment of department store category management, the further expansion of the Premium segment, the continued development of business activities with licensees, the implementation of fundamental changes in procurement policy, and the reorientation of its structural and process organization. At Primondo, the key targets will be the completion of the restructuring measures, the continued fundamental reorientation of the segment's universal mail order companies in Germany and abroad with a systematic brand focus, the intensification of e-commerce activities and the generation of further yield-oriented growth in the area of Specialty Mail Order. The realignment of the segments has also been incorporated into the Group's business planning in the form of corresponding measures. The complexity of the related processes means that the targets included in planning are inevitably subject to a degree of risk in terms of timing and content.

Financial risks

The Arcandor Group is exposed to various financial opportunities and risks. These can be divided into risks and opportunities from operations and risks from financing.

Arcandor AG is exposed to financial risks and opportunities from operations primarily as a result of risks from fluctuations in interest and currency rates and price changes. Financial price risks include purchase costs for fuel, goods, services and hotel capacities. The financial effects of these risks are reduced by the use of appropriate financial instruments. For this purpose, the currency risk is hedged via forward exchange contracts. In addition, hedging policy provides for hedging between 95% and 100% of the fuel requirements for the current flight schedule. As a result of the recent strongly fluctuating kerosene prices, significant risks and opportunities arise from hedging the kerosene price. In order to realize these, we have implemented wide-ranging processes and are continually checking their effectiveness. As is typical for instruments of this sort, there is a risk that the Group will be required to recognize write-downs at future reporting dates.

Arcandor AG's Group financing is made up of different credit lines on a Group and segment basis with different durations. The existing credit financing for the operating loan requirement of Arcandor AG is essentially represented by two credit agreements: The 1.5 bill. € syndicated credit facility agreed on June 12, 2007; and the 155 mill. € credit facility agreed on September 29, 2008. The leading banks of the first of these facilities are Bayerische Landesbank, Dresdner Bank and Royal Bank of Scotland; the leading banks of the second facility are Bayerische Landesbank and Dresdner Bank. In addition, there are smaller credit lines from Sal. Oppenheim and VALOVIS Bank.

The credit lines taken up via the aforementioned credit agreements can be divided into individual tranches with durations between the end of February 2009 and the end of September 2009. Two tranches of the 1.5 bill. € facility were fully redeemed during the past financial year; another tranche was paid except for to a residual amount of 66.4 mill. €. There are options to extend two of the remaining tranches which were fully utilized as at the balance sheet date. These options are subject to the conditions of the banks, which must be renegotiated.

Two facts are important in assessing the Company's prospects for maintaining its provision of loans.

Firstly, on September 29, 2008, both twelve-month loan extensions and new additional loans with a duration of up to twelve months were received from banks with which the company has a long-standing relationship. Secondly, additional credit lines of 50 mill. € were secured from the new shareholder Sal.Oppenheim, which subscribed to a capital increase of 23 mill. shares. We see this as a clear signal of the essential willingness on the part of lending banks to support the Company with loans, even on a long-term basis.

Under the terms of these facilities, lenders are granted a right of termination in the event that certain rules of procedure are breached or contractually agreed financial commitments (covenants) are not observed. The Group is also required to meet certain conditions and requirements in terms of providing regular information to lenders. The breach of such obligations and conditions may result in early termination. Non-extension or termination of existing credit facilities and loans constitutes a risk to the continued existence of Arcandor AG as a going concern.

Even assuming the guaranteed availability of Group financing, it must be ensured that limits are not exceeded as a result of negative influences and deviations from financial planning (e.g. with regard to the planned divestments and capital measures). The optimization of liquidity requirements in the case of peaks in financing during the year is achievable through the systematic implementation of the improved liquidity planning and monitoring system (monitoring of bottom-up liquidity requirements within the Group combined with rolling monthly financial planning).

We also actively manage the available credit facilities. Here, the management is in intensive contact with creditors, particularly in the context of further optimizing our business model and holding structure (group structure).

The Karstadt and Primondo retail segments are dependent on third-party providers of goods and services. The majority of suppliers in these segments have insured their trade receivables from Arcandor Group companies by concluding corresponding trade credit insurance. Any reduction in or termination of the coverage provided by the corresponding insurers could lead to these suppliers requiring delivery against cash in advance, as well as the loss of sales through the non-delivery of goods. Insurers are kept regularly informed about the course of business, and the payment terms agreed with suppliers are consistently observed. We expect the cooperation with Li & Fung Ltd to result in positive liquidity effects. By concentrating the purchasing volumes for specific channels via Li & Fung, a significant cumulative improvement in working capital is forecast until 2010. The incomplete or delayed transfer of these purchasing volumes to Li & Fung could result in deviations from the forecast liquidity requirements, and hence could adversely affect the planned improvement in working capital. In addition, the current crisis in the banks and financial sector could negatively impact the implementation of payment terms. In order to support this process, a control system for the planned measures has been introduced with the aim of monitoring the working capital effect of the cooperation by way of near-real-time results analysis.

Various German and foreign companies in the Arcandor Group sell trade receivables as part of a factoring program or an ABS program. Suspending these programs could lead to a short-term liquidity requirement. Information is regularly exchanged between contracting parties in order to secure the commitment.

If the Group's business performance does not develop according to plan or there are significant changes in the capital market environment, risks may arise in connection with the balance sheet measurement of intangible assets (goodwill, trademarks and other intangible assets) and assets classified as held for sale. However, timely countermeasures based on solid management and controlling data mean that these risks can be reduced.

The various outsourcing agreements entered into by the Group, particularly in the areas of IT, logistics and purchasing, give rise to risks concerning the failure to meet minimum order quantities and other commitments. These agreements are under constant management review in order to implement rapid countermeasures in the event of deviation.

In the context of the insolvency of the department store chains Hertie, SinnLeffers and Wehmeyer, which previously belonged to the Arcandor Group, risks arose from the fact that Karstadt acted as the main tenant to a certain extent and sublet stores to these chains, as well as from lower exchange of services and from rental guarantees. Provisions are recognized for risks arising from these insolvencies.

Compliance risks

The Arcandor Group also recognizes provisions for potential tax risks resulting from external tax audits and finance court and out-of-court proceedings. The external tax audits that are currently in progress at a number of Arcandor Group companies may result in not immaterial backpayments of taxes. There is also a fundamental risk that the Group's tax burden may be adversely affected by changes in tax legislation or court rulings. Changes in tax legislation could also affect deferred tax assets and liabilities.

The Arcandor Group is in negotiations with EDS-Itellium relating to the annulment of the EDS general contract for the outsourcing of IT services. At present, we do not foresee the negotiations having a significant negative financial impact.

In addition to this, neither Arcandor AG nor one of its subsidiaries is participating in ongoing or foreseeable legal or arbitration proceedings which could have a significant impact on the economic situation of the Group. As in previous years, each company has made appropriate provisions for all possible negative financial influences from legal or arbitration proceedings.

Risks from benefit schemes

For various companies of the Arcandor Group, defined benefit systems are in place which are managed by third-party pension funds. The respective companies pay contributions to these pension funds. In addition, for some companies in Germany, there is an internal pension fund in line with the contractual trust arrangement (CTA) concept to finance its pension obligations. Risks from pension funds and the CTA occur in the reduction of the market value of plan assets due to the global financial crisis or a changed investment strategy of the trustees. In addition, there are risks from changes to labor court rulings and general risks from the development of relevant factors such as higher life expectancy of employees included in the pension plans, or a higher pension age, which may have a negative impact on the pension funds or pension payments.

Other organizational risks

The key service processes within the Arcandor Group are largely IT-based. We have implemented a comprehensive range of measures and backup and security systems in order to prevent data loss and the failure of IT systems in the tourism, stationary sales and mail order segments. All operational IT services are contracted out to high-performance, globally operating service providers.

These operational processes and contractual events are also subject to ongoing management review to implement further optimization and cost savings, and thereby to secure earnings.

Thomas Cook has implemented its own business continuing management to counter possible global difficulties immediately. We are integrating state-of-the-art developments into our travel booking and offering platforms as part of the Group-wide “Globe” IT project. On account of its importance for Thomas Cook’s future development, the “Globe” IT project is being managed by a special organizational team and closely controlled and monitored by a specific risk management system.

REPORT ON EXPECTED DEVELOPMENTS

In the two financial years to come, the focus of the Arcandor Group will be on cash flow, lowering debt and increasing earnings.

The Thomas Cook tourism group and the homeshopping specialist Primondo are the two most strongly growing units in the Arcandor Group. This is expected to advance organic and external growth in both operating segments. Keys to this growth strategy are the continued expansion of e-commerce and the further internationalization of the business.

Thomas Cook is showing itself to be robust in the current market environment, with a planned bookings trend for the winter season. In addition, the flexible business model allows for quick reaction to a changing economic environment.

Primondo is set to continue to grow and generate positive cash flow in the 2008/2009 financial year. Primondo already generates 70% of sales in growth areas. In addition to the substitution of catalog business with e-commerce and international expansion, our focus is on TV shopping and expanding specialty mail order.

At Karstadt, we will focus on strengthening sales, costs and trimming staff at the administrative headquarters. The efficiency program which has since been introduced will also make a significant contribution to this.

As a result of the uncertain economic environment, it is currently difficult to make concrete forecasts. Arcandor has developed its plans for the coming years on the basis of the economic forecasts currently available. In addition, the Group has prepared itself for the possibility of a difficult 2008/2009 financial year. The Arcandor Group expects that growth of adjusted EBITDA of the operating segments will continue even in the current 2008/2009 financial year. We confirm our current forecast and plan adjusted EBITDA in our operating segments of more than 1.1 bill. € for the current financial year. This represents an earnings upturn in the operating units of a good 34%. However, this forecast can only be achieved if economic development shifts towards tourism and retail in line with statements currently available from economic research institutes, and if the crisis on the capital market does not significantly increase in magnitude.

CONSOLIDATED FINANCIAL STATEMENTS

AUDITOR'S OPINION

RESPONSIBILITY STATEMENT

CONSOLIDATED INCOME STATEMENT

for the period between October 1, 2007 and September 30, 2008

Amounts shown in th. €	Item Notes	**01.10.2007 – 30.09.2008**	01.01.2007 – 30.09.2007*	Change in %
Sales	1	19,357,489	14,594,024	32.6
Cost of sales and expenses for tourism services	2	-12,750,486	-9,638,552	-32.3
Gross income		**6,607,003**	**4,955,472**	33.3
Other capitalized own costs	3	4,091	28,966	-85.9
Operating income	4	1,114,390	1,595,674	-30.2
Staff costs	5	-2,812,547	-2,162,595	-30.1
Operating expenses	6	-4,543,079	-3,204,124	-41.8
Other taxes	7	-5,816	-14,062	58.6
Earnings before cost relating to factoring, interest, tax, depreciation and amortization (EBITDA)		**364,042**	**1,199,331**	-70.0
Depreciation and amortization (not including amortization of goodwill)	8	-528,852	-388,955	-36.0
thereof impairment loss		-82,403	-17,907	-
Earnings before cost relating to factoring, interest and tax (EBIT)		**-164,810**	**810,376**	-120.3
Cost relating to factoring	9	-48,143	-29,977	-60.6
Income from investments	10	-627	6,226	-110.1
Income from investments in associates	11	8,133	12,677	-35.8
Interest and similar income	12	190,856	161,824	17.9
Interest and similar expenses	12	-527,020	-299,528	-76.0
Other financial income	13	7,171	15,204	-52.8
Other financial expenses	13	-27,663	-25,351	-9.1
Earnings before tax (EBT)		**-562,103**	**651,451**	-186.3
Taxes on income	14	-138,355	-263,694	47.5
Results from continuing operations		**-700,458**	**387,757**	-
Results from discontinued operations	15	-38,567	-242,334	84.1
Group results before minority interests		**-739,025**	**145,423**	-
Profit/loss due to minority interest	16	-6,633	-118,886	94.4
Group results after minority interests		**-745,658**	**26,537**	-
Earnings per share (undiluted) in €	17	**-3.35**	**0.13**	-
thereof from continuing operations		-3.18	1.30	-
thereof from discontinued operations		-0.17	-1.17	-
Earnings per share (diluted) in €				
thereof from continuing operations	17	-	1.23	-

* The data has been adjusted.

Important note:

Important note: Owing to the differing inclusion of Thomas Cook (acquisition of 50% stake of Deutsche Lufthansa AG in Thomas Cook AG and acquisition of MyTravel Group plc) and the different periods due to the short financial year in 2007, as well as the short financial year of Thomas Cook Group in 2007/2008 a comparison with the prior year (January 1, 2007 to September 30, 2007) is not possible.

CONSOLIDATED BALANCE SHEET

for the period ended September 30, 2008

ASSETS

Amounts shown in th. €	Item Notes	30.09.2008	30.09.2007*	Change in %
Intangible assets	18	4,675,650	4,507,666	3.7
Tangible assets	19	2,360,101	1,887,686	25.0
Investment property	19	19,784	93	-
Shares in associates	20	98,530	157,510	-37.4
Non-current financial asstes	21	713,507	515,960	38.3
thereof securities		11,470	12,643	-9.3
Non-current income tax receivables		12,503	5,410	131.1
Other non-current assets	22	49,705	51,441	-3.4
Deferred taxes	23	610,026	676,404	-9.8
Non-current assets		**8,539,806**	**7,802,170**	9.5
Inventories	24	1,366,891	1,288,746	6.1
Trade receivables	25	715,133	685,856	4.3
Current financial assets	26	1,105,613	1,094,697	1.0
Current income tax receivables		68,884	54,105	27.3
Other receivables and assets	27	553,896	480,783	15.2
Cash and cash equivalents and securities	28	1,317,850	1,505,643	-12.5
Current assets		**5,128,267**	**5,109,830**	0.4
Assets classified as held for sale	29	341,052	1,191,479	-71.4
Balance sheet total		**14,009,125**	**14,103,479**	-0.7

EQUITY AND LIABILITIES

Amounts shown in th. €	Item Notes	30.09.2008	30.09.2007*	Change in %
Subscribed share capital		574,740	551,098	4.3
Contribution for agreed capital increase		59,853	-	-
Reserves		47,993	1,137,950	-95.8
Minority interests		547,652	721,247	-24.1
Equity	30	**1,230,238**	**2,410,295**	-49.0
Non-current financial liabilities	31	1,903,817	1,191,000	59.9
Other non-current financial liabilities	32	323,621	897,748	-64.0
Other non-current liabilities	32	94,875	119,427	-20.6
Pension provisions	33	977,586	1,024,557	-4.6
Non-current tax liabilities	32	91,010	81,301	11.9
Other non-current provisions	34	516,968	474,134	9.0
Deferred taxes	23	390,257	378,088	3.2
Non-current liabilities		**4,298,134**	**4,166,255**	3.2
Current financial liabilities	31	1,610,945	1,276,164	26.2
Trade payables	35	3,216,498	2,671,050	20.4
Current tax liabilities	32	93,339	118,210	-21.0
Other current financial liabilities	32	1,119,588	682,729	64.0
Other current liabilities	32	1,709,976	1,614,129	5.9
Current provisions	36	534,666	596,770	-10.4
Current liabilities		**8,285,012**	**6,959,052**	19.1
Liabilities related to assets classified as held for sale	29	195,741	567,877	-65.5
Balance sheet total		**14,009,125**	**14,103,479**	-0.7

* The data has been adjusted.

STATEMENT OF CHANGES IN EQUITY

for the period between October 1, 2007 and September 30, 2008 (previous year: January 1 to September 30, 2007)

				Revenue reserves						
Amounts shown in th. €	Subscribed share capital	Contribution for agreed capital increase	Additional paid-in capital	Other revenue reserves*	Reserve for intercom-pany profit and loss elimination	Revaluation reserve	Revaluation reserve for gradual acquisition	Cumulative foreign currency differences	Minority interests	**Group equity total**
Opening balance 01.01.2007 *	**514,592**	**-**	**639,630**	**-601,972**	**548,674**	**-15,475**	**-**	**-9,831**	**11,073**	**1,086,691**
Differences from foreign currency translation	-	-	-	-	-	-	-	-27,583	-25,793	-53,376
Changes resulting from disposals and the measure-ment of primary and derivative financial instruments	-	-	-	-	-	-9,682	-	-	-	-9,682
Fair value measurement in line with IAS 39	-	-	-	-	-	277,782	-	-	-	277,782
Changes in group of consolidated companies	-	-	-	-	-	-	-	-	11,252	11,252
Addition from succesive acquisition	-	-	-	-	-	-	258,237	-	-	258,237
Effects from share swap with MyTravel	-	-	-	427,094	-	-	-	-	610,255	1,037,349
Equity changes without effect for income	**-**	**-**	**-**	**427,094**	**-**	**268,100**	**258,237**	**-27,583**	**595,714**	**1,521,562**
Consolidated earnings	-	-	-	26,537	-	-	-	-	118,886	145,423
Intercompany profit and loss elimination	-	-	-	-	-548,674	-	-	-	-	-548,674
	-	**-**	**-**	**453,631**	**-548,674**	**268,100**	**258,237**	**-27,583**	**714,600**	**1,118,311**
Exercise of convertible bond/stock options	22,503	-	45,548	-	-	-	-	-	-	68,051
Issue of own shares	14,003	-	127,665	-	-	-	-	-	-	141,668
Dividends	-	-	-	-	-	-	-	-	-4,426	-4,426
	36,506	-	173,213	-	-	-	-	-	-4,426	205,293
Closing balance 30.09.2007 *	**551,098**	**-**	**812,843**	**-148,341**	-	**252,625**	**258,237**	**-37,414**	**721,247**	**2,410,295**
Opening balance 01.10.2007 *	**551,098**	**-**	**812,843**	**-148,341**	**-**	**252,625**	**258,237**	**-37,414**	**721,247**	**2,410,295**
Differences from foreign currency translation	-	-	-	-	-	-	-	-146,190	-12,669	-158,859
Changes resulting from disposals and the measure-ment of primary and derivative financial instruments	-	-	-	-	-	54,521	-	-	47,452	101,973
Reclassification	-	-	-558,516	558,516	-	-	-	-	-	-
Fair value measurement in line with IAS 39	-	-	-	-	-	-278,256	-	-	-	-278,256
Changes in group of consolidated companies 1)	-	-	-	-26,493	-	-	-	1,456	-165,711	-190,748
Equity changes without effect for income	**-**	**-**	**-558,516**	**532,023**	**-**	**-223,735**	**-**	**-144,734**	**-130,928**	**-525,890**
Consolidated earnings	-	-	-	-745,658	-	-	-	-	6,633	-739,025
	-	**-**	**-558,516**	**-213,635**	**-**	**-223,735**	**-**	**-144,734**	**-124,295**	**-1,264,915**
Contribution for agreed capital increase	-	59,853	-	-	-	-	-	-	-	59,853
Exercise of convertible bond	23,642	-	50,663	-	-	-	-	-	-	74,305
Dividends	-	-	-	-	-	-	-	-	-49,300	-49,300
Closing balance 30.09.2008	**574,740**	**59,853**	**304,990**	**-361,976**	**-**	**28,890**	**258,237**	**-182,148**	**547,652**	**1,230,238**

* The data has been adjusted due to changes in accounting policies.

1) The changes relate to disposals in regard to the Thomas Cook Group plc share buy back program.

CONSOLIDATED CASH FLOW STATEMENT

for the period between October 1, 2007 and September 30, 2008

Amounts shown in th. €	Item Notes	**01.10.2007 –30.09.2008**	01.01.2007 –30.09.2007*
Group results after minority interests		**-745,658**	**26,537**
Profit/loss due to minority interests		6,633	118,886
Results from discontinued operations		38,567	242,334
Taxes on income		138,355	263,694
Expenses relating to factoring		48,143	29,977
Other financial results		20,492	10,147
Net interest income		336,164	137,704
Participation result (including results from associated companies)		-7,506	-18,903
Depreciation and amortization		528,852	388,955
EBITDA		**364,042**	**1,199,331**
Profit/loss from the disposal of fixed assets		-241,250	-977,536
Profit/loss from foreign currency		-22,228	1,808
Changes in non-current provisions (not including pension and tax provisions)		12,112	122,076
Utilization of/addition to the provision for reorganization		-69,014	-87,039
Other expenses/income not affecting cash flow		141,679	-72,822
Changes in working capital		371,031	62,861
Changes in other assets and equity and liabilities		-435,255	-129,585
Dividends received		2,949	14,427
Program fees in relation to sale of receivables/factoring		-56,662	-29,977
Payments/refunds of taxes on income		-115,231	-89,019
Cash flow from operating activities	15, 39	**-47,827**	**14,525**
Cash payments/cash receipts for acquisition of subsidiaries less acquired cash & cash equivalents		-398,772	8,649
Payments received for divestment of subsidiaries less cash & cash equivalents sold		433,412	9,419
Purchase of tangible and intangible assets		-413,742	-254,422
Purchase of investments in non-current financial assets		-62,788	-51,166
Cash receipts from sale of tangible and intangible assets		61,836	255,666
Cash receipts from sale of non-current financial assets		17,970	10,011
Cash payments/cash receipts from the sale/for the purchase of current securities		204,249	-330,162
Cash flow from investing activities	15, 40	**-157,835**	**-352,005**
Free cash flow	41	**-205,662**	**-337,480**
Interest received		65,058	81,059
Interest paid		-245,911	-118,422
Pension payments		-125,315	-82,162
Take-up/reduction of (financial) loans		903,365	536,899
Payments of liabilities due under finance lease		-177,813	-78,199
Cash payments/cash receipts for dividends and share buybacks		-164,443	-4,426
Cash flow from financing activities	15, 42	**254,941**	**334,749**
Changes in cash and cash equivalents affecting cash flow		**49,279**	**-2,731**
Changes in the cash flow due to changes in exchange rates		-15,754	-14,769
Cash and cash equivalents at the beginning of the period [1]		1,149,740	1,167,240
Cash and cash equivalents at the end of the period [1]	43	**1,183,265**	**1,149,740**
thereof from discontinued operations		27,809	10,740

* The data has been adjusted.

[1] The composition of cash and cash equivalents was adjusted in accordance with IAS 8.41ff. to match IAS 7.7 requirements. The adjustments are disclosed under Purchase of investments in non-current financial assets and amounts to minus 36,481 th. € for the cash and cash equivalents at the beginning of the period an minus 366,643 th. € for the cash and cash equivalents at the at the end of the period.

Important note:

Important note: Owing to the differing inclusion of Thomas Cook (acquisition of 50 % stake of Deutsche Lufthansa AG in Thomas Cook AG and acquisition of MyTravel Group plc) and the different periods due to the short financial year in 2007, as well as the short financial year of Thomas Cook Group in 2007/2008 a comparison with the prior year (January 1, 2007 to September 30, 2007) is not possible.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Segment report

BREAKDOWN BY SEGMENT

		Arcandor Group		Reconciliation account 1)		Thomas Cook 4)	
Amounts shown in th. €		**01.10.2007 - 30.09.2008**	01.01.2007 - 30.09.2007*	**01.10.2007 - 30.09.2008**	01.01.2007 - 30.09.2007	**01.10.2007 - 30.09.2008**	01.01.2007 - 30.09.2007
Sales		20,411,364	15,525,206	-	-	10,646,923	8,557,194
Interest from lending business		138,755	96,339	-	-	-	-
Internal sales		-1,192,630	-1,027,521	-197,590	-202,327	-164,921	-109,357
Group sales		**19,357,489**	**14,594,024**	**-197,590**	**-202,327**	**10,482,002**	**8,447,837**
Group sales (adjusted)		***19,014,863***	***14,280,909***	***-77,649***	***-110,857***	***10,482,002***	***8,447,837***
Cost of sales and expenses for tourism services		-12,750,486	-9,638,552	6,857	8,444	-8,070,051	-6,371,317
Gross income		**6,607,003**	**4,955,472**	**-190,733**	**-193,883**	**2,411,951**	**2,076,520**
Other capitalized own costs		4,091	28,966	-	24,476	-	-
Operating income and expenses		-3,428,689	-1,608,450	48,145	79,069	-853,718	-629,085
Staff costs		-2,812,547	-2,162,595	-27,807	-21,855	-1,159,715	-923,837
Other taxes		-5,816	-14,062	-1,177	-5,042	-5,077	-5,919
EBITDA		**364,042**	**1,199,331**	**-171,572**	**-117,235**	**393,441**	**517,679**
EBITDA (adjusted)		***642,479***	***548,445***	***-87,861***	***-71,734***	***623,359***	***708,623***
EBITDA margin in % (adjusted)		*3.3*	*3.7*	-	-	*5.9*	*8.4*
Depreciation and amortization (not including goodwill)		-528,852	-388,955	-2,240	-1,831	-280,682	-243,510
EBIT		**-164,810**	**810,376**	**-173,812**	**-119,066**	**112,759**	**274,169**
Income from investments in associates		8,133	12,677	-	-	2,789	6,259
Earnings from discontinued operations		-38,567	-242,334	-	-	-	-
Segment assets	balance sheet date	11,190,109	10,337,361	112,510	71,271	7,272,248	6,452,572
Segment liabilities	balance sheet date	7,676,084	7,165,665	288,772	174,710	4,443,276	3,977,012
Investments 2)		396,989	254,950	1,904	2,998	160,177	92,981
Employees (average) 3)	number	86,244	95,501	151	187	33,031	32,938

SEGMENT REPORT BY REGION

	Arcandor Group		Reconciliation account		Domestic	
Amounts shown in th. €	**01.10.2007 - 30.09.2008**	01.01.2007 - 30.09.2007*	**01.10.2007 - 30.09.2008**	01.01.2007 - 30.09.2007 *	**01.10.2007 - 30.09.2008**	01.01.2007 - 30.09.2007*
Sales	20,411,364	15,525,206	-	-	12,022,295	9,093,182
Interest from credit business	138,755	96,339	-	-	127,864	88,170
Inter-segment sales	-1,192,630	-1,027,521	-370,505	-313,647	-859,534	-689,187
Group sales	**19,357,489**	**14,594,024**	**-370,505**	**-313,647**	**11,290,625**	**8,492,165**
Cost of sales and expenses for tourism services	-12,750,486	-9,638,552	432,467	282,376	-7,126,086	-5,416,452
Gross income	**6,607,003**	**4,955,472**	**61,962**	**-31,271**	**4,164,539**	**3,075,713**
EBITDA	364,042	1,199,331	-182,312	-230,146	326,230	1,310,740
EBIT	-164,810	810,376	-182,312	-230,074	-57,079	928,809
Earnings from discontinued operations	-38,567	-242,334	-	395	-45,301	-245,683
Segments assets	11,190,109	10,337,361	-612,973	-230,600	3,829,316	3,865,275
Segments liabilities	7,676,084	7,165,665	-285,897	-25,556	3,063,460	3,748,984
Investments	396,989	254,950	-	-	289,029	182,808

* The data has been adjusted.
1) The Reconciliation account also includes activities of the holding company and Karstadt Finance B. V.
2) Not including additions to finance leases, capitalized restoration liabilities or goodwill.
3) In line with HGB; including trainees and discontinued operations.
4) Including Thomas Cook Group plc for the period from November 1, 2007 to September 30, 2008. Previous year: Thomas Cook AG is reported for the period from November 1, 2006 to April 1, 2007 at 50 % and for the period from April 2, 2007 to October 31, 2007 at 100 % and MyTravel plc from June 19, 2007 to October 31, 2007 at 100 %.

Period: 01.10.2007 to 30.09.2008, Previous year period: 01.01.2007 to 30.09.2007

Primondo		Karstadt		Services		Real Estate	
01.10.2007 - 30.09.2008	01.01.2007 - 30.09.2007*	**01.10.2007 - 30.09.2008**	01.01.2007 - 30.09.2007	**01.10.2007 - 30.09.2008**	01.01.2007 - 30.09.2007	**01.10.2007 - 30.09.2008**	01.01.2007 - 30.09.2007
5,098,152	3,610,036	4,329,732	3,078,627	185,586	179,683	150,971	99,666
118,747	82,440	-	-	20,008	13,899	-	-
-785,488	-687,401	-44,630	-27,719	-1	-717	-	-
4,431,411	**3,005,075**	**4,285,102**	**3,050,908**	**205,593**	**192,865**	**150,971**	**99,666**
4,309,820	***2,889,445***	***4,095,097***	***2,861,619***	***205,593***	***192,865***	**-**	**-**
-2,155,725	-1,477,680	-2,455,317	-1,747,184	-76,250	-50,815	-	-
2,275,686	**1,527,395**	**1,829,785**	**1,303,724**	**129,343**	**142,050**	**150,971**	**99,666**
1,679	2,215	2,412	1,640	-	635	-	-
-1,627,886	-1,087,191	-1,008,123	-708,979	-109,112	-109,730	122,005	847,466
-658,456	-519,370	-934,972	-657,739	-31,235	-39,203	-362	-591
1,191	-2,492	-197	-48	-7	-1	-549	-560
-7,786	**-79,443**	**-111,095**	**-61,402**	**-11,011**	**-6,249**	**272,065**	**945,981**
89,706	***-51,171***	***-4,151***	***-34,014***	***-9,389***	***-3,631***	***30,815***	***372***
2.0	*-2.5*	*-0.1*	*-1.2*	*-4.6*	*-1.9*	*20.4*	-
-68,736	-48,979	-161,165	-75,286	-5,679	-4,812	-10,350	-14,537
-76,522	**-128,422**	**-272,260**	**-136,688**	**-16,690**	**-11,061**	**261,715**	**931,444**
321	41	-	-	3,824	6,439	1,199	-62
-38,567	-242,334	-	-	-	-	-	-
1,905,279	2,114,658	1,776,706	1,284,780	37,513	176,531	85,853	237,549
1,744,846	1,855,319	877,611	855,827	30,290	41,219	291,289	261,578
98,769	91,533	131,175	62,252	4,929	5,186	35	-
20,476	28,537	32,058	32,986	522	838	6	15

Western Europe		Eastern Europe		Other countries	
01.10.2007 - 30.09.2008	01.01.2007 - 30.09.2007*	**01.10.2007 - 30.09.2008**	01.01.2007 - 30.09.2007*	**01.10.2007 - 30.09.2008**	01.01.2007 - 30.09.2007*
7,351,881	6,035,548	482,441	274,275	554,747	122,201
10,877	8,043	14	126	-	-
35,688	-24,144	1,721	-543	-	-
7,398,446	**6,019,447**	**484,176**	**273,858**	**554,747**	**122,201**
-5,309,660	-4,230,025	-285,346	-170,038	-461,861	-104,413
2,088,786	**1,789,422**	**198,830**	**103,820**	**92,886**	**17,788**
165,727	119,778	34,838	1,015	19,559	-2,070
32,112	114,023	32,400	-271	10,069	-2,125
4,988	1,067	1,746	1,887	-	-
6,881,239	6,244,489	316,703	81,828	775,824	376,369
4,399,392	3,233,583	64,797	38,836	434,332	169,818
97,809	64,774	3,667	5,352	6,484	2,016

Important note:

Important note: Owing to the differing inclusion of Thomas Cook (acquisition of 50% stake of Deutsche Lufthansa AG in Thomas Cook AG and acquisition of MyTravel Group plc) and the different periods due to the short financial year in 2007, as well as the short financial year of Thomas Cook Group in 2007/2008 a comparison with the prior year (January 1, 2007 to September 30, 2007) is not possible.

Accounting

GENERAL INFORMATION

As the controlling company of the Group, Arcandor AG is registered as ARCANDOR Aktiengesellschaft with the Essen District Court, Germany (HRB 1783). The company is domiciled in Essen under the address of Arcandor AG, Theodor-Althoff-Strasse 2, 45133 Essen, Germany.

With its Karstadt and Primondo divisions, Arcandor AG is one of the largest department store and mail order groups in Europe and is also one of the world's largest travel companies with its Thomas Cook tourism division.

The Management Board prepared the consolidated financial statements and the consolidated Management Report for the period to September 30, 2008, on December 5, 2008, and approved them for presentation to the Supervisory Board.

BASIS OF ACCOUNTING

The consolidated financial statements of Arcandor AG as of September 30, 2008 were prepared in accordance with International Financial Reporting Standards (IFRS) in force at the balance sheet date and to be applied in the European Union as well as the supplementary commercial regulations to be observed under section 315a, paragraph 1 of the German Commercial Code (HGB). The consolidated statements are filed and printed in the electronic Federal Gazette.

The IFRS comprise IFRS issued by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). Apart from one regulation on portfolio hedge accounting under IAS 39, all of the obligatory standards and interpretations at the balance sheet date have been adopted in EU law by the European Commission. The respective regulation is not relevant for Arcandor AG in the reporting period. Thus, the consolidated statements of Arcandor AG comply with IFRS as they are applied in the European Union.

The consolidated financial statements comprise the consolidated income statement, the consolidated balance sheet, the statement of changes in equity, the consolidated cash flow statement and the consolidated notes. There is also a Group Management Report.

The consolidated financial statements were prepared in euros. All amounts are expressed in thousands of euros (th. €) unless otherwise specifically indicated. Assets and liabilities are classified as non-current and current assets or liabilities in accordance with their maturity. The consolidated income statement is structured in accordance with the nature of expense method.

In the previous reporting period, the financial year of Arcandor AG and its included subsidiaries was changed from the calendar year to the year ending September 30. Therefore, the comparative period of the preceding year was a short financial year comprising nine months from January 1, 2007 to September 30, 2007. Since the current 2007/2008 financial year, the reporting period of the Arcandor Group will run from October 1 to September 30.

Due to the shift of the financial year to the common reporting date of September 30 across the Group and in view of the acquisition of the second 50 % of the Thomas Cook AG stake and the following merger of Thomas Cook AG and MyTravel plc to form Thomas Cook Group plc in 2007, the Thomas Cook Group is consolidated in the current and the comparable periods as follows:

For the 2007/2008 financial year ended on September 30, 2008, Thomas Cook Group plc is consolidated with its balance sheet as of September 30, 2008 and with an income statement for the eleven month period from November 1, 2007 to September 30, 2008.

In the comparable period of the preceding year ending on September 30, 2007, the Thomas Cook Group plc balance sheet (including Thomas Cook AG and MyTravel Group plc) was entirely consolidated as of October 31, 2007. The income statements of Thomas Cook AG and its subsidiaries were 50 % consolidated for the five-month period from November 1, 2006 to April 1, 2007 and fully consolidated for the seven-month period from April 2, 2007 to October 31, 2007. The income and expenses of MyTravel plc and its subsidiaries were fully consolidated for the period from June 19 to October 31, 2007.

Due to the changes to the Group structure mentioned above, comparability with the previous year is only possible to a very limited extent.

Revised or new IFRS and resulting changes to reporting, recognition or valuation

As against the consolidated financial statements as at September 30, 2007, the following standards and interpretations have either changed or became mandatory for the first time on account of being endorsed in EU law or as a result of the regulation coming into effect:

IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions"

IFRIC 11 was published on November 2, 2006 and endorsed in EU law on June 1, 2007; it is to be applied for the first time in financial years starting on or after March 1, 2007. IFRIC 11 requires that a share-based payment agreement under which the company receives goods or services (this includes staff services) in consideration for its own equity instruments should be classified as "equity-settled". This applies irrespective of how the equity instruments are obtained by the company.

Furthermore, IFRIC 11 regulates whether share-based payment agreements of a consolidated company are to be classified as “equity-settled” or as “cash settled” if equity instruments of the parent company are granted. In this case it must be distinguished whether share options are granted by the parent company or by a consolidated company.

The first-time application of IFRIC 11 had no significant effect on the net assets, financial position or results of operations of the Arcandor Group.

Outlook on IFRS – Changes in 2008/2009

The following IFRS were published by the IASB or the IFRIC by the balance sheet date. They are, however, only obligatory for later reporting periods or have not yet been endorsed in EU law. The Arcandor Group has decided not to early adopt the standards when the requirement for adoption applies only for later reporting periods.

IFRS 8 “Operating Segments”

IFRS 8 was published on November 30, 2006 and endorsed in EU law on November 21, 2007; it is to be applied for the first time in the financial years starting on or after January 1, 2009. IFRS 8 replaces IAS 14 “Segment Reporting” and is almost identical to SFAS 131. The previous primary and secondary reporting format, which distinguishes between business and geographic segments, will no longer be used and has been changed to a single report format which presents segments on the basis of information used by the management in controlling the company.
A reconciliation account is also required for all segments that must be reported relating to total profit/loss of the specific segment and all the associated assets and debts corresponding to the respective amounts of the annual financial statement. Details are also to be provided on geographic segments, products and important customers. In addition, vertically integrated supply processes where a component of the company, which primarily or exclusively supplies to other segments of the company, were integrated into the definition of an operating segment in cases where the company is managed in this way. The regulations of IFRS 8 are relevant to the Arcandor Group and will be applied in accordance with the standard in future.

IFRIC 12 “Service Concession Arrangements”

IFRIC 12 was published for the first time on November 30, 2006 and is to be first applied in financial years starting on or after January 1, 2008. The subject of the interpretation is the recognition of service agreements under which companies are commissioned by government bodies to offer public services such as the construction of roads, airports or energy supply infrastructures. While control over the assets remains with the government, the company is contractually obliged in terms of construction, operation and maintenance. IFRIC 12 deals with the question of how the rights and obligations resulting from such contractual agreements are to be presented in the financial statements. IFRIC 12 has not yet been endorsed in EU law. IFRIC 12 regulations are also not relevant for the Arcandor Group at present.

Amendments to IAS 23 “Borrowing Costs”

The amendments to IAS 23 were published on March 29, 2007 and are to be applied for the first time in financial years starting on or after January 1, 2009. The amendments eliminate the option to recognize interest on borrowing costs in the acquisition or production of qualified assets directly as an expense. In future, this interest must be included in the cost of qualified assets. The amendments to IAS 23 are relevant to the Arcandor Group but had not yet been endorsed in EU law at the balance sheet date.

IFRIC 13 “Customer Loyalty Programs”

IFRIC 13 was published on June 28, 2007 and is to be first applied in the financial years starting on or after July, 1 2008. IAS 18.13 regulates the separate application of recognition criteria for sales for each individual transaction. In certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. Such transactions are then referred to as multi-component agreements and the corresponding sales are recognized at different times. IFRIC 13 now clarifies that customer loyalty programs that reward customers with redeemable award credits such as points or travel miles must be recognized as multi-component agreements. The regulations of IFRIC 13 are relevant to the Arcandor Group but had not yet been endorsed in EU law at the balance sheet date.

IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”

IFRIC 14 was published on July 5, 2007 and is to be first applied in the financial years starting on or after January 1, 2008. IAS 19.58 limits the measurement of a defined benefit plan asset to the present value of its economic benefit in the form of reimbursement from the plan or reduction of future contributions to the plan (“asset ceiling”). IFRIC 14 regulates the effects of minimum finance provisions for pension plans on the measurement ceiling stipulated in IAS 19.58 for defined benefit assets or liabilities and clarifies various aspects in this context. In particular, the specification of the ceiling for the surplus amount of a pension fund that can be recognized as an asset under IAS 19, the effect of statutory or contractual minimum finance provisions on the assets or liabilities of a plan and the conditions for the recognition of a liability from minimum finance obligations have been clarified. The regulations of IFRIC 14 are relevant to the Arcandor Group but had not yet been endorsed in EU law at the balance sheet date.

Amendments to IAS 1 "Presentation of Financial Statements: A Revised Presentation"

The amendments to IAS 1 were published on September 6, 2007 and are to be applied for the first time in financial years starting on or after January 1, 2009. The amendments primarily relate to the changes in the names of the income statement, balance sheet and cash flow statement, the introduction of a disclosure for certain changes in equity ("statement of comprehensive income") and the obligation to disclose an opening balance sheet for the first period shown affected by a retrospective change in accounting. The amendments to IAS 1 are relevant to the Arcandor Group but had not yet been endorsed in EU law at the balance sheet date.

Revised IFRS 3 "Business Combinations" and Amendments to IAS 27 "Consolidated and Separate Financial Statements"

The amendments to IFRS 3 occurred together with an amendment to IAS 27 as part of the second phase of the Business Combinations project. The amendments to IFRS 3 and IAS 27 were published on January 10, 2008 and are to be applied for the first time in financial years starting on or after July 1, 2009. Thus, the scope of business combinations is extended to mutual entities and those without consideration. Business combinations of companies under common control are excluded. In future, the costs associated with an acquisition for the issue of debt and equity securities shall be recognized in agreement with IAS 39 or IAS 32. All other expenses relating to acquisitions are recognized as an expense. Furthermore, the option of the "full goodwill method" shall be introduced, whereby a company is allowed to recognize the goodwill of the acquired company fully and not only a share of the buyer, with a correspondingly higher amount of shares of acquired revalued net assets which are not controlled. In the case of a step acquisition, the specification of goodwill and the revaluation of net asset values take place only at the time of control. All of the following transactions between the parent company and the uncontrolled shares are treated as pure equity transactions. The regulations of IFRIC 3 and IAS 27 are relevant to the Arcandor Group but had not yet been endorsed in EU law at the balance sheet date.

Amendments to IFRS 2 "Share-based Payment: Vesting Conditions and Cancellations"

The amendments to IFRS 2 were published on January 17, 2008 and are to be applied for the first time in financial years starting on or after January 1, 2009. The aim of the amendments was to define the terms vesting conditions and cancellations more precisely. Accordingly, vesting conditions only comprise conditions dependent of success and performance. Other aspects of share-based remuneration present no vesting condition and are to be included in the fair value of the share-based remuneration as of the time of grant. All cancellations should experience the same accounting treatment, whether made by the company or other parties. The amendments to IFRS 2 are relevant to the Arcandor Group but had not yet been endorsed in EU law at the balance sheet date.

Amendments to IAS 32 and IAS 1 "Puttable Financial Instruments and Obligations Arising on Liquidation"

The amendments to IAS 32 and IAS 1 were published on February 14, 2008 and are to be applied for the first time in financial years starting on or after January 1, 2009. As a result of these amendments, several financial instruments, which previously fulfilled the definition of a financial liability, are now to be classified as equity because they represent the most subordinate claim on the company's net assets. However, detailed requirements are sufficient for this purpose. The amendments to IAS 32 and IAS 1 are relevant to the Arcandor Group but had not yet been endorsed in EU law at the balance sheet date.

Improvements to IFRSs

The adjustments to various IASs/IFRSs were published on May 22, 2008 and are to be applied for the first time in line with the deadlines stated in the respective standards. In a first stage, the Improvements Project affects IFRS 5, IAS 1, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41 and primarily includes clarification of existing regulations. The adjustments are partly relevant to the Arcandor Group but had not yet been endorsed in EU law at the balance sheet date.

Amendments to IFRS 1 and IAS 27 "Cost of an Investment in a subsidiary, jointly-controlled entity or associate"

The amendments to IFRS 1 and IAS 27 were published on May 22, 2008 and are to be applied for the first time in financial years starting on or after January 1, 2009. The motivation for amendments was that the retroactive specification of acquisition costs and application of acquisition cost method in accordance with IAS 27 can only be achieved in many cases at considerable cost when IFRS is applied for the first time. As a result, in future, those applying IFRSs for the first time to measure acquisition costs of an investment in subsidiaries, jointly controlled entities (in terms of joint ventures and associated companies) may use assumed acquisition costs. Furthermore, the definition of acquisition cost methods in IAS 27 was removed and replaced with the requirement to present dividends as income in the separate financial statement of the investor, whereby a differentiation is made between dividends before and after acquisition. An exception is also included for the restructuring of the Group where a new parent company must use the book values of the existing company as acquisition costs for the specification of the carrying amount, to the extent that there were no amendments to ownership and equity or assets and debts. The amendments to IFRS 1 and IAS 27 are not relevant for the Arcandor Group. They had not yet been endorsed in EU law at the balance sheet date.

IFRIC 15 "Agreements for the Construction of Real Estate"

IFRIC 15 was published on July 3, 2008 and is to be first applied in the financial years starting on or after Thursday, January 1, 2009. IFRIC 15 standardizes accounting practice across jurisdictions in respect to the recognition of income on the part of real estate developers for sales of units (e.g. apartments or individual houses) before construction is complete. Guidelines will be made available, which shall ensure clear classification of the respective agreement for the construction of real estate for the scope of IAS 11 "Construction Contracts" or else IAS 18 "Revenue".

Depending on classification, income from construction will be recognized in this way at different times. The regulations of IFRIC 15 are relevant to the Arcandor Group but had not yet been endorsed in EU law at the balance sheet date.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"
IFRIC 16 was published on July 3, 2008 and is to be first applied in the financial years starting on or after October 1, 2008. The interpretation refers to IAS 21 "The effects of changes in foreign exchange rates" and IAS 39 "Financial instruments: Recognition and measurement" and deals with the topic of hedging net investments in a foreign operation. The focus here is on three problems. Firstly, it is stated that a foreign currency difference may be designated only as a hedging risk if the functional currency of the foreign operation differs from the functional currency of the parent company. However, with the presentation currency in the consolidated financial statements of the parent company there is no risk position. A hedging instrument to hedge a net investment in a foreign operation may also be held by every company within the Group. If the investment is disposed of by the company, then for the hedging instrument the amounts recorded in equity are reclassified in the income statement in accordance with IAS 39; but IAS 21 is to be applied in regard to the underlying transaction. The regulations of IFRIC 16 are relevant to the Arcandor Group but had not yet been endorsed in EU law at the balance sheet date.

Amendments to IAS 39 "Financial Instruments: Recognition and Measurement – Eligible Hedged Items"
The amendments to IAS 39 were published on July 31, 2008 and are to be applied for the first time in financial years starting on or after July 1, 2009. The rationale of the amendments is to provide additional application guidelines for the designation of hedging instruments, as contradictions exist in practice when dealing with a unilateral risk or taking account of inflation in a hedging transaction. The amendments to IAS 39 are relevant to the Arcandor Group but had not yet been endorsed in EU law at the balance sheet date.

The Arcandor Group does not anticipate that the application of standards which were published but not effective on the balance sheet date will have any material effect on the Group's net assets, financial position and results of operations.

GENERAL ACCOUNTING POLICIES

Changes in accounting policies

With the exception of the changes described below, the accounting policies are the same as those in the last consolidated financial statements as at the end of the 2007 financial year.

In the past, the Arcandor Group capitalized catalog costs and amortized these over their useful life according to the planned sales of the respective catalog. As the IFRSs had no specific regulations for the accounting of catalog costs, the IASB focused on this topic. In the "Improvements to IFRSs" published by IASB in May 2008, through an amendment to IAS 38 it is specified that a mail order catalog is classified as advertising. As a result of this amendment, the expenses associated with catalogs are expensed when the company receives the respective payments or products.

The Arcandor Group follows the opinion held by the IASB and the EFRAG that the clarifying amendment makes more reliable and more relevant information on catalog costs available, and therefore already applies the amendment as a voluntary change in accounting policy in line with IAS 8 in the consolidated financial statements as at September 30, 2008.

The quantitative effects of this retrospective voluntary amendment in accounting policy on the comparative information of the previous year presented in Arcandor's consolidated financial statements are as follows:

Adjustment of the comparative periods

Amounts shown in mill. €	30.09.2007
Assets	
Other receivables and other assets	-94.0
Assets classified as held for sale	-12.5
Equity and liabilities	
Revenue reserves	-67.8
Deferred taxes	-26.5
Liabilities related to assets classified as held for sale	-12.2

Amounts shown in mill. €	01.01.2007 – 30.09.2007
Income statement	
Operating expenses	-8.3
Earnings before cost relating to factoring, interest, tax, depreciation and amortization (EBITDA)	**-8.3**
Earnings before interest and tax (EBIT)	**-8.3**
Earnings before tax (EBT)	**-8.3**
Taxes on income	-3.6
Earnings from continuing operations	**-11.9**
Result from discontinued operations	22.1
Group earnings before minority interest	**10.2**
Group earnings after minority interest	**10.2**

The previous year adjustments did not have any material effect on the earnings per share.

However, changes may also result from the obligatory first-time application of new or revised standards and interpretations. Further information is available in the section on “revised or new IFRS and resulting changes to reporting, recognition or valuation” insofar as these changes were relevant to the Group in the reporting period or have resulted in changes to the previous year’s figures.

For the first time, expenses related to the factoring were reported for the 2007/2008 financial year and the 2007 short financial year as line items in the consolidated income statement. Expenses were calculated as a percentage of cash receipts from the sales of receivables and do not relate to the credit risks from the receivables.

According to IFRS, there are no regulations for recording such expenses, whereas according to US GAAP, corresponding expenses are recognized as part of the financial or interest expenses. The Arcandor Group decided to apply an amended disclosure because the relevance of information is improved as a result.

In addition, the balance sheet classification was extended with regard to tax liabilities, financial assets and liabilities as well as real estate held as investment property.

Recognition of income and expenses

Sales are measured at the fair value of a consideration received and represent amounts for goods supplied and services performed during the normal course of business excluding discounts, value-added tax and other taxes relating to sales. Sales and other operating income are not recognized until the services were provided or the goods or products delivered so that material risks and rewards have been passed to the customer.

Operating expenses are recorded when a service is provided or when they are incurred.

Interest income is recognized based on the outstanding amounts borrowed and the applicable effective interest rate. The effective interest rate is the rate of interest by means of which the present value of estimated future cash inflows equals the carrying amount of the asset. Dividend income is recorded when the legal right to payment arises.

In line with IAS 18, earnings from service agreements are recognized according to the percentage of completion provided that IAS 18.20 criteria are met. In contrast to this, sales and expenses directly attributable to holidays are recognized on travel departure.

Long-term development projects

For real estate development projects proportionate results are recognized according to the percentage of completion of the project, unless a loss is anticipated. Anticipated losses are recognized immediately for the full amount through impairments or provisions. Realization of profits is based on a calculation of the costs incurred as a percentage of the total estimated costs.

Goodwill

In the context of business combinations, goodwill results from the difference between acquisition costs and the fair value of the assets and liabilities acquired. A positive difference is capitalized, whereas a negative amount is recognized in the income statement.

Goodwill, as an intangible asset with an indefinite useful life, is not amortized. In an impairment test, any goodwill acquired within a business combination is allocated to those cash-generating units that are likely to benefit from the synergies. Goodwill is tested once a year for impairment and also if there is any indication of an impairment loss. If the carrying amount of a cash-generating unit exceeds the recoverable amount of the unit, goodwill allocated to this cash-generating unit is impaired; impairment losses recognized in previous years are not reversed in this case.

If an impairment loss of a cash-generating unit exceeds the carrying amount of the associated goodwill, the excess impairment loss is to be allocated proportionately to the respective assets of the cash-generating unit. The recoverable amount of a cash-generating unit is determined on the basis of value in use is calculated by application of DCF models. In this case calculations are based on forecasts approved by the management and used for internal purposes.

When a subsidiary, associate or jointly controlled entity is sold, the attributable value of goodwill is included in profit or loss from the sale.

Intangible assets not including goodwill

Intangible assets with a limited useful life are measured at amortized cost. Amortization is calculated on the basis of the following useful lives:

Assets	Useful life
Software	3 – 5 years
Licenses, tenancy rights, rights of use and similar rights	Duration of agreements or shorter economic life
Other intangible assets	3 – 15 years

In addition to amortization, an impairment test is carried out when there are indications that impairment losses exceed normal amortization. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired. This may also apply to cash-generating units.

Intangible assets with an indefinite useful life are not amortized. An impairment test is carried out if there is any indication of an impairment loss; this may also apply to cash-generating units. An impairment is recognized if the carrying amount of an intangible asset or an associated cash-generating unit exceeds the respective recoverable amount.

Impairment losses on assets other than goodwill are reversed if the reason for impairment losses previously recorded no longer exists.

As far as the requirements of IAS 38.51 ff. are met, development costs which are based mostly on intragroup services are recognized as internally generated assets at cost. Costs also include reasonable portions of overheads. Borrowing costs are not included when determining manufacturing costs.

Tangible assets

Assets	Useful life
Buildings	25 – 50 years
Aircraft and replacement engines	12 – 20 years (or shorter duration of rent agreement)
Major inspections	4 – 5 years
Plant and machinery	6 – 15 years (or shorter duration of rent agreement)
Other plant, fixtures, furniture and office equipment	2 – 15 years
Store fixtures and fittings	7 years (or shorter duration of rent agreement)

Tangible assets are measured at amortized cost. Borrowing costs are not included when determining manufacturing cost.

In addition to depreciation, an impairment test is carried out on tangible assets for which there are indications that impairment losses exceed normal depreciation. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired. This may also apply to cash-generating units. Impairment losses are reversed if the reason for impairment losses previously recorded no longer exists.

Obligations recognized in accordance with IAS 37 for restoring, for example, leasehold improvements are capitalized as a component of cost. These are depreciated over the shorter of the respective useful life of the asset or the rental agreement.

Major inspections (C4 checks) of aircraft are capitalized as separate components and depreciated over the period until the next scheduled inspection.

Land and buildings held as financial investments (investment property) include property held to generate rental income or for long-term capital appreciation. They are measured at cost under IAS 40 in conjunction with IAS 16 and depreciated on a straight-line basis over the expected useful life.

Maintenance expenses are generally recognized in profit or loss. They are capitalized if they substantially improve the respective asset.

Leases

Leases are classified as finance leases under IAS 17 if all of the material risks and rewards pertaining to ownership of the lease asset are transferred to the lessee. All other leases are classified as operating leases. Arcandor AG acts as both a lessor and a lessee.

Payments due from lessees resulting from finance leases are reported as receivables to the amount of the net cash investment resulting from the lease. Income from finance leases is allocated over the lease term to reflect consistent periodical returns on outstanding net cash investment. Rental income from operating leases is recognized on a straight-line basis in profit or loss over the term of the corresponding lease.

Assets held as finance leases are capitalized at fair value at the inception of a lease or at the lower present value of respective minimum lease payments and are then written down on a straight-line basis. The corresponding liability to the lessor is shown as a finance lease obligation. Lease payments are proportionately allocated to financial expenditure and to the reduction of a lease obligation to result in a consistent return on the remaining balance of obligations for each reporting period. Rental payments for operating leases are recognized on a straight-line basis in profit or loss over the term of the corresponding lease.

Financial instruments

A financial instrument is an agreement which results in a financial asset for one party to the transaction while at the same time resulting in a financial liability or an equity instrument for another party. Financial instruments are recognized when the Group enters into a corresponding agreement. However, for standard market purchases or sales, the date of settlement is relevant for initial recognition or disposal.

A financial asset is derecognized when IAS 39 17 f. requirements are fulfilled. Insofar as the Group transfers its contractual rights to cash flows arising from an asset and essentially neither transfers nor retains the risks and rewards incident to ownership of this asset and also retains the power to dispose of the transferred asset, the Group will continue to recognize the asset to the extent of its continuing involvement.

Financial assets mainly include cash and cash equivalents, trade receivables, loans granted and other receivables, financial investments held to maturity, as well as normal and derivative financial assets held for trading. Financial liabilities normally include securities and other secured liabilities, trade payables, liabilities to banks, finance lease liabilities, loans against a promissory note and derivative financial instruments. Financial assets and financial liabilities are only offset for reporting purposes if there is a right of offset and the intention to settle on a net basis. The liability and equity components of compound financial instruments are separated and shown separately under the respective issuer.

Financial instruments are valued at fair value on initial recognition. In this case, transaction costs directly attributable to acquisition are included for all financial assets and liabilities which are subsequently not valued through profit or loss. Fair values shown on the balance sheet are generally equivalent to the market value of financial assets and liabilities. Accepted valuation methods and the application of current market parameters are used to calculate fair values which are not directly available.

Subsequent measurement depends on whether financial instruments are held for trading or until maturity or whether they are available for sale, or whether they are loans and receivables issued by the company. Financial instruments held for trading are reported at fair value with changes recognized in profit or loss. Financial instruments intended to be held to maturity are valued at amortized cost under the effective interest rate method. The remaining non-derivative financial assets and liabilities, if not loans and receivables, are classified as available for sale and measured at fair value. Increases and decreases resulting from valuation at fair value are recognized in equity. This does not apply in the case of permanent or significant impairment losses or for currency-related changes in the value of borrowed capital. Profits or losses accumulated in equity are recognized in the income statement subsequent to the disposal of financial instruments.

Inventories

Inventories are recognized at the lower of cost or net realizable value. Manufacturing cost comprises all of the directly attributable costs for materials and production costs as well as overheads incurred in bringing inventory to its present location and condition. Borrowing costs are not included in cost. Net realizable value comprises estimated proceeds less estimated costs for production and costs incurred up to sale or disposal.

Non-current assets held for sale and discontinued operations

A discontinued operation is a significant business division or Group component which has been classified as held for sale. Individual assets or groups of related assets and liabilities which do not concurrently constitute a significant business unit, for example, due to their size or significance, are non-current assets held for sale or disposal groups. They are reported separately on the balance sheet. Specific accounting rules also apply for the income statement and the cash flow statement in the case of discontinued operations.

Non-current assets held for sale, disposal groups and discontinued operations are measured at the lower of the carrying amount and fair value less costs to sell. Depreciation is suspended and any impairment losses are recognized in profit and loss.

The requirements for classification as non-current assets held for sale, disposal groups and discontinued operations are reviewed at each balance sheet date. Impairment in the reporting period is recognized in profit and loss. Any increase in the fair value less costs to sell is only reversed in profit and loss up to the amount of the respective cumulative impairment loss.

Receivables and other assets

Trade receivables are non-interest bearing and are recognized at nominal value. Uncollectible or doubtful receivables are written down. For mail order receivables sold in the context of factoring possible write-downs are recognized by discounting the purchase price of the receivables. Thus, there is no separate allowance account.

Cash and cash equivalents

Cash equivalents include all near-liquidity assets which, at the time of the acquisition or investment, have a remaining term of less than three months. Cash and cash equivalents are valued at amortized cost.

Deferred taxes

Deferred taxes are anticipated income tax payables or reimbursements resulting from differences between the carrying amounts of assets and liabilities in the annual financial statements and the respective tax bases applied in calculating taxable earnings.

Deferred taxes are recognized for all taxable temporary differences using the balance sheet-related liability method. Deferred taxes are not recognized on temporary differences resulting from goodwill or from first-time recognition of other assets and liabilities in a transaction (which is not a business combination) that affects neither taxable earnings nor IFRS earnings. Deferred taxes are measured at the tax rates which are expected to apply in the periods in which an asset is realized or a liability is settled. Deferred taxes are reported as tax income or tax expenditure in the income statement unless they are related to items reported directly in equity, in which case the deferred taxes are also reported in equity.

Deferred tax liabilities are recognized for taxable temporary differences. This also includes differences resulting from shares in subsidiaries or associated companies and shares in joint ventures, unless the parent company can influence the reversal of a temporary difference and the temporary difference is unlikely to be reversed in the near future.

Deferred tax assets are reported to the extent that it is probable that taxable income against which the deductible temporary difference can be utilized will be available. Deferred tax assets are also recognized for tax losses carried forward which can be used in later years provided that their realization is guaranteed with sufficient certainty. The carrying amount of deferred tax assets will be reviewed on each balance sheet date and reduced to the extent to which it is no longer probable that sufficient taxable income for the year will be available against which the asset may be utilized.

Liabilities

Liabilities are recognized at amortized cost under IAS 39.

Directly attributable transaction costs are deducted on recognition of the liabilities and are amortized over the contractual terms.

Deferred income

Payments from outsourcing transactions made for future service and purchase obligations are accrued at the time of the cash inflow and released over the term of the agreement through profit and loss.

Government grants for tangible assets are recognized as deferred income and are released over the expected useful life of the respective asset.

Provisions

Provisions comprise all legal and constructive obligations with uncertain timing or amount and which the Group cannot avoid fulfilling. In this case only obligations to third parties which will probably result in an outflow of economic resources are included. Provisions are measured using best estimates. In the event of different scenarios to which different probabilities can be allocated an expected value of the settlement amount is carried as liability; non-current provisions are discounted. Netting the amount of obligations with any claims for reimbursement is not implemented. Netting is always permissible for the income statement, irrespective of balance sheet treatment. The carrying amount of provisions is reviewed on each balance sheet date.

Pension provisions under defined benefit plans are calculated using actuarial assumptions under the projected unit credit method and recognized on the basis of an actuarial valuation as at the balance sheet date. Assets are transferred to two external non-profit associations and the plan assets recognized (direct investments of liquid funds) serve to secure future pension payments.

Pension obligations are recognized at the present value of defined benefit obligations adjusted by past service costs and actuarial gains or losses. The fair value of the plan assets is deducted. Actuarial gains and losses are only included and allocated over the average future service period to the extent that they exceed a corridor corresponding to the higher value of 10% of the respective obligation or 10% of the plan assets.

Defined contribution plan commitments are recognized as an expense. Payments not yet made for a period are recognized on an accrual basis.

Other provisions are recognized for uncertain liabilities and onerous contracts.

Share-based payment

The Arcandor Group has agreed various share-based payment plans as an element of total remuneration with the members of its Management Board and selected executives. The remuneration received is indirectly measured on the basis of the fair values of the equity or debt instruments used and recognized pro rata as staff costs and in equity or as a provision. The fair values are calculated for the first time on the grant date and, for cash-settled share-based payment agreements, recalculated at each subsequent balance sheet date applying a suitable option pricing model. Changes in fair values are recognized in profit and loss for cash-settled share-based payment agreements.

Insurance Contracts

Incidental to its main business, the Thomas Cook Group, through its subsidiary White Horse Insurance Ireland Limited, also issues insurance contracts in connection with holidays. These contracts transfer significant insurance risks to the Thomas Cook Group and are classified as insurance contracts in terms of IFRS 4. The Thomas Cook Group generally defines a significant insurance risk as the possibility of compensating the claimant if an uncertain case occurs, which adversely affects the holder of the policy.

Concluded contracts include general commercial risks for the Group and travel insurance for the Group and for customers outside the Group.

The transferred risks in connection with travel services are primarily short-term in nature with low individual values and high volume. The development of contracts and risks is monitored on an ongoing basis, whereas premiums are monitored annually on the level of individual contracts. Risks are limited by specific regulations in the individual policies, as well as by reinsurance contracts. The insurance risk is divided among the different European countries where Thomas Cook provides travel services.

Claims by third parties as of the balance sheet date are determined on the basis of historical data. In these cases, average handling fees and marketing costs are taken into account for costs calculated in the past for asserted claims. The obligation recognized as of the balance sheet date is regularly monitored by an independent actuarial expert.

The principles for choosing reinsurance companies were adopted by the Management Board of the Thomas Cook Group and include reinsurance contracts only with those providers whose rating is at least B+. Thus, recognized claims from reinsurance contracts are subject only to a limited credit risk.

Derivative financial instruments

The derivative financial instruments used in the Group comprise hedging instruments used to control risks arising from price, interest rate and foreign currency fluctuations and to hedge the fuel price risk at Thomas Cook. The Arcandor Group primarily uses interest rate swaps, forward exchange contracts, foreign currency options and crude oil spread options and hedge combinations. Derivative financial instruments are neither held nor issued for speculative purposes, they serve solely to hedge current underlying transactions or planned transactions. Their use by the Group is only possible in line with internally defined responsibilities and controls within a clearly defined scope.

All derivative financial instruments are recognized at market value. First-time recognition occurs to the trading date. Available information on markets and suitable valuation methods are applied for measuring the market value of derivative financial instruments employed. The fair value of options is determined with the help of recognized option pricing models and the fair value of interest-rate derivatives is determined allowing for remaining maturities on the basis of current market interest rates and the interest rate structure.

When recognizing hedging transactions, a distinction is made between fair value hedges and cash flow hedges.

In the case of cash flow hedges contracted as a hedge against the risk of fluctuating cash inflows and outflows, changes in market value are, if risk limitation and documentation are sufficient, recognized directly in equity under “Changes resulting from the measurement of derivative financial instruments”. Ineffective elements and components of the hedge excluded from the derivative are recognized in profit and loss (spot rate method).

In the case of fair value hedges contracted as a hedge against the risk of market value fluctuations in recognized assets or liabilities, the changes in market value of the derivatives are recognized in profit and loss under other financial income/expenses; the adjustment not affecting net income is the result of recognized changes in the value of the hedged underlying transaction, which is also recognized in the income statement.

The market value fluctuations of individual commercially necessary hedging transactions, some of which do not fulfill the specific definitions of effectiveness under IAS 39, are recognized in profit and loss.

Positive market values of derivative financial instruments are reported under financial assets and negative market values are reported under financial liabilities.

Assumptions and estimates

Assumptions and estimates were applied in preparing the consolidated financial statements. They had an effect on the recognition and measurement of assets, liabilities, earnings, expenses and contingent liabilities. Assumptions and estimates relate mainly to the Group-wide determination of useful economic lives, assumptions with regard to the value of land, buildings, aircraft, goodwill, receivables, participating interest, the valuation of provisions and share-based payments as well as the realizability of future tax relief. In individual cases, actual values may differ from the assumptions and estimates made, particularly dividend yields, interest rates and volatilities. When more reliable information is available, changes are taken into account and recognized in profit and loss.

Contingent liabilities

Contingent liabilities are possible obligations which arise from past events and whose existence depends on future events not under the company's control as well as existing obligations which cannot be recognized since either an outflow of resources is not probable or the amount of the obligation cannot be estimated with sufficient reliability. Contingent liabilities are disclosed to the extent of the possible obligation at the balance sheet date. Financial guarantee contracts issued are carried as liabilities under IAS 39 and are measured at fair value.

Consolidation

CONSOLIDATION PRINCIPLES

Business combinations are accounted for in accordance with the purchase method. The purchase price is allocated to the assets and liabilities of the subsidiary acquired. The values at the date at which control was established over the subsidiary are used. Irrespective of the share in the investment any assets that qualify for recognition and liabilities assumed are recognized at fair value. Any positive difference remaining between the purchase price and equity is recognized as goodwill. Any badwill is recognized directly in profit or loss. In the periods following the business combination, any fair value adjustments are treated in line with the corresponding assets and liabilities.

Uniform accounting policies are applied to all the financial statements included in the consolidated financial statements of Arcandor AG. All expenses and income, receivables and liabilities and intercompany results are eliminated.

Joint ventures are included proportionately; i.e. assets, liabilities, expenses and earnings are included in accordance with the participating interest. Where necessary, interim financial statements were prepared for different balance sheet dates.

Interests in associates accounted for using the equity method are recognized under an item at the amount of their proportionately revalued assets (including any goodwill) and liabilities. Goodwill resulting from application of the equity method is not amortized; instead it is tested for impairment at least once a year. The equity value is generally adjusted for the pro rata net profit for the period. Unrealized profits and losses from transactions with these companies are eliminated proportionately. Where necessary, interim financial statements were prepared for different balance sheet dates.

The following table shows the pro rata non-current and current assets and liabilities, as well as the sales, income and earnings for the joint ventures consolidated proportionately. These amounts are included in the individual line items of the consolidated balance sheet and income statement:

Proportionate items of joint ventures consolidated proportionately *

Amounts shown in th. €	**30.09.2008**	30.09.2007
Non-current assets	74,313	65,773
Current assets	151,867	168,702
Non-current liabilities	12,837	17,695
Current liabilities	72,533	64,601

Amounts shown in th. €	**01.10.2007 – 30.09.2008**	01.01.2007 – 30.09.2007
Sales	519,491	366,984
Gross income	209,518	151,422
EBITDA	3,691	3,039
EBIT	-4,264	2,401
Contribution to consolidated earnings	-5,679	2,048

* Including IFRS 5

Other investments and subsidiaries, joint ventures and at-equity investments, which are immaterial and are therefore not consolidated, are recognized under IAS 39 at fair market value unless they are financial investments held to maturity or financial assets that have no quoted market price in an active market and whose fair value cannot be reliably estimated.

FOREIGN CURRENCY TRANSLATION

Transactions in foreign currencies are translated into the functional currency at the exchange rate on the transaction date. On the balance sheet date monetary items are translated at the closing rate and non-monetary items are translated at the rate applying on the transaction date. Resulting translation differences to the amount of minus 4.0 mill. € (previous year: plus 1.8 mill. €) were recognized in profit or loss.

The financial statements of consolidated companies outside the European Monetary Union whose functional currency is not the euro are translated under the modified closing rate method.

In the consolidated financial statements, assets and liabilities of consolidated companies are translated into euros at the average closing date rates. Income statements of foreign consolidated companies whose functional currency is not the euro are translated at the average rates. Translation differences are recognized in equity. The most important rates have developed relative to the euro as follows:

Most important exchange rates to €

		Average rate		Rate applying at the balance sheet date	
Amounts shown in in €	As at 2008/2007	**2008**	2007	**2008**	2007
1 Canadian dollar	30.09./31.10.	0.659	0.677	0.666	0.728
100 Danish kroner	30.09./30.09.	13.410	13.425	13.403	13.416
1 English pound	30.09./31.10.	1.310	1.476	1.265	1.435
1 English pound	30.09./30.09.	1.310	1.478	1.265	1.435
100 Hongkong dollar	30.09./30.09.	8.536	9.528	8.999	9.086
100 Japanese yen	30.09./31.10.	0.618	0.627	0.665	0.600
100 Norwegian kroner	30.09./30.09.	12.555	12.405	12.037	12.958
100 Polish zlotys	30.09./30.09.	28.625	26.093	29.263	26.456
100 Swedish kroner	30.09./30.09.	10.661	10.826	10.211	10.852
100 Swiss francs	30.09./30.09.	61.694	61.089	63.395	60.237
100 Slowakian korunas	30.09./30.09.	3.131	2.959	3.312	2.966
100 Thai baht	30.09./31.10.	2.060	2.241	2.046	2.184
100 Czech korunas	30.09./30.09.	3.956	3.566	4.054	3.640
1 Turkish lira	30.09./31.10.	0.545	0.552	0.548	0.588
1 Tunisian dinar	30.09./31.10.	0.546	0.574	0.559	0.560
1 US dollar	30.09./31.10.	0.665	0.744	0.699	0.692
1 US dollar	30.09./30.09.	0.665	0.744	0.699	0.705

CONSOLIDATED COMPANIES

The financial statements of the parent company and of all major subsidiaries under direct or indirect control are included in the consolidated financial statements of Arcandor AG as at September 30, 2008. Control is presumed to exist when the parent company either legally or constructively has the opportunity to govern the financial and operating policies of a company so as to derive an economic benefit.

Companies are first included in the consolidated financial statements from the point in time when control can be exercised or when the criteria for joint ventures and associated companies have been met. Companies not consolidated are immaterial in terms of quantitative and qualitative aspects on an individual and aggregate basis and are recognized in line with IAS 39.

On September 30, 2008, the Group of consolidated companies was made up as follows:

Consolidated companies

	Total 30.09.2008	thereof domestic	thereof international	Total 30.09.2007
Number of fully consolidated companies (subsidiaries)				
As at 01.10./01.01.	671	311	360	383
Addition	42	8	34	234
Disposal	-59	-29	-30	-52
Merger	-6	-3	-3	-10
Change in type of consolidation	-1	-	-1	116
As at 30.09.	**647**	**287**	**360**	**671**
Number of proportionately included joint ventures				
As at 01.10./01.01.	34	15	19	150
Addition	6	-	6	4
Disposal	-	-	-	-2
Change in type of consolidation	1	-	1	-118
As at 30.09.	**41**	**15**	**26**	**34**
Number of companies recognized at equity (associates)				
As at 01.10./01.01.	15	5	10	25
Addition	1	-	1	-
Disposal	-	-	-	-12
Change in type of consolidation	-	-	-	2
As at 30.09.	**16**	**5**	**11**	**15**

The significant subsidiaries included in the consolidated financial statements are listed on page 112. The complete list of investments of Arcandor AG will be filed at the operator of the electronic Federal Gazette and, following this filing, be published in the Federal Gazette.

In the 2007/2008 financial year, the group of consolidated companies decreased by 24 companies. The changes relate mainly to the disposals of NeBus, Mode & Preis, MultiBus and the Neckermann Group in the context of the disinvestment program in the Primondo segment. In addition, 42 companies were acquired or fully consolidated for the first time. The additions relate primarily to the following acquisitions made by Thomas Cook: Hotels4U.com Limited (February 14, 2008), Thomas Cook (India) Limited (March 27 (control), June 20 and July 4, 2008), Thomas Cook Overseas Limited (April 4, 2008), Thomas Cook Lebanon S.A.L. (April 4, 2008), TriWest Travel Holdings (August 1, 2008), Jet Tours S.A. (August 4, 2008) and Elegant Resorts Limited (April 3, 2008). With the exception of Thomas Cook (India) Limited (74.9% in total), 100% stakes in these companies were acquired. In addition, on May 1, 2008, the stake in Viajes Iberoservice Espana S.L. was increased by 25% to 65%.

The acquisition cost for Hotels4U.com Limited was 51.8 mill. € (39.0 mill. GBP). The purchase price is made up of 29.3 mill. € in cash and 22.5 mill. € on a contingent basis. Incidental costs of acquisition totaling 0.8 mill. € were incurred. The difference (after fair value adjustments in the context of purchase price allocation in line with IFRS 3) between the cost of acquisition and the net assets of the company recognized at amortized cost totals 43.5 mill. € and is reported as goodwill. Since the time of acquisition, sales of 18.1 mill. € and earnings after taxes of minus 0.8 mill. € were posted for the company in the consolidated financial statements as of September 30, 2008.

The acquisition of Thomas Cook (India) Limited (74.9% stake), including incidental costs of 4.5 mill. € resulted in capitalization of acquisition costs in an amount of 202.8 mill. € (160.3 mill. GBP). The difference (after fair value adjustments in the context of purchase price allocation in line with IFRS 3) between the cost of acquisition and the net assets of the company after minorities of 5.6 mill. € amounts to 185.8 mill. € and is reported as goodwill. Since the time of acquisition, sales of 25.6 mill. € and earnings after taxes of 0.9 mill. € were posted for the company in the consolidated financial statements as of September 30, 2008.

The acquisition cost (including incidental costs) for TriWest Travel Holdings was 76.5 mill. € (121.4 mill. CAD). The purchase price is made up of 72.4 mill. € in cash and 4.1 mill. € on a contingent basis. The provisional difference (before fair value adjustments) between the cost of acquisition and the net assets of the company recognized at amortized cost after minorities of 0.1 mill. € totals 68.1 mill. € and is reported as goodwill. Since the time of acquisition, sales of 57.6 mill. € and earnings after taxes of 1.8 mill. € were posted for the company in the consolidated financial statements as of September 30, 2008.

The acquisition of Jet Tours S.A., including incidental costs, resulted in capitalization of acquisition costs in the amount of 71.4 mill. €. The difference (before fair value adjustments) between the cost of acquisition and the net assets of the company totals 69.9 mill. € and is reported as goodwill. Since the time of acquisition, sales of 65.9 mill. € and earnings after taxes of minus 2.7 mill. € were posted for the company in the consolidated financial statements as of September 30, 2008.

Acquisition costs for Elegant Resorts Limited and certain other smaller acquisitions totaled 78.7 mill. € (62.2 mill. GBP). The total purchase price is made up of 73.1 mill. € in cash, 2.5 mill. € in a loan, 1.8 mill. € from the transfer of shares to associated companies and 1.3 mill. € on a contingent basis. Incidental costs of acquisition totaling 1.3 mill. € were incurred. The difference (after fair value adjustments in the context of purchase price allocation in line with IFRS 3) between the cost of acquisition and the net assets of the company after minorities of 2.1 mill. € amounts to 40.9 mill. € and is reported as goodwill. Since the time of acquisition, sales of 79.1 mill. € and earnings after taxes of 1.2 mill. € were posted for the companies in the consolidated financial statements as of September 30, 2008.

Due to the acquisitions of TriWest Travel Holdings and Jet Tours S.A. being close in time to the reporting date, the purchase price allocation in line with IFRS 3 has not yet been fully implemented. Thus a provisional goodwill amount at the relevant level has been recognized on the balance sheet.

With the disposal of the 51 % stake of the Neckermann Group to Sun Capital Partners and the transfer of control to the new majority shareholder, the Neckermann Group was deconsolidated on February 29, 2008. To the balance sheet date, the interest was reported under non-current financial assets available for sale. The initial measurement of the financial instrument was at the fair value of Arcandor's remaining share in the net assets of 147.2 mill. €. This figure corresponds to the value of the Neckermann Group previously reported under IFRS 5 and with the reclassification to an “available for sale” financial instrument represents the acquisition costs of the interest. The subsequent measurement is at amortized cost in line with IAS 39.46(c).

The further changes in the group of consolidated companies have no material impact on the results of operations, net assets and financial position of the Arcandor Group.

Therefore, due to the changes in the consolidated companies in the reporting period, comparisons with previous periods are only possible to a limited extent.

The carrying amounts and fair values immediately before business combinations of the assets and liabilities acquired and the corresponding fair values relate to the individual acquisitions as shown below:

Assets and liabilities acquired at the time of first-time consolidation

	Hotels4U.com Limited		Thomas Cook (India) Limited		TriWest Travel Holdings		Jet Tours S.A.		Others (Elegant Resorts etc.)	
Amounts shown in mill. € *	Book value	Fair value	Book value	Fair value	Book value	Fair value	Book value	Fair value	Book value	Fair value
Intangible assets (not including goodwill)	-	17.8	1.9	40.5	-	3.7	5.1	2.4	1.1	25.6
Tangible assets	0.2	0.2	9.4	11.4	1.2	0.7	2.0	2.0	3.6	3.6
Deferred taxes	-	-	-	-	-	-	7.7	7.7	0.2	-
Inventories	-	-	-	-	-	-	0.1	0.1	0.2	0.2
Receivables and other assets	36.9	1.5	48.0	48.0	4.8	8.7	47.2	47.2	79.8	79.8
Cash and cash equivalents and securities	0.9	0.9	27.4	27.4	15.7	23.4	12.6	12.6	26.1	26.1
Assets	**38.0**	**2.6**	**86.7**	**127.3**	**21.7**	**36.5**	**74.7**	**72.0**	**111.0**	**135.3**
Deferred taxes	-	4.2	0.4	11.8	6.8	1.0	-	-	-	4.7
Liabilities	37.4	9.6	69.6	92.4	26.5	27.0	68.7	68.7	87.6	88.0
Provisions	-	-	0.6	0.6	-	-	1.8	1.8	2.6	2.6
Liabilities	**37.4**	**13.8**	**70.6**	**104.8**	**33.3**	**28.0**	**70.5**	**70.5**	**90.2**	**95.3**

* Translated by rate at balance sheet date.

If the acquisitions were made at the beginning of the reporting period, sales and earnings would have increased by 847.4 mill. € and 4.3 mill. € respectively.

Changes to the consolidated companies as well as acquisitions and divestments had the following effects on the income statement and the balance sheet of the Arcandor Group:

Acquisitions/Divestments

	Acquisitions		Divestments	
Amounts shown in th. €	**01.10.2007 - 30.09.2008**	01.01.2007 - 30.09.2007	**01.10.2007 - 30.09.2008**	01.01.2007 - 30.09.2007
Sales	270,775	5,597,557	6,795	4,739
Earnings after tax	2,952	87,379	-13,552	-902
Earnings from discontinued operations	-	-	-14,227	-86,190

Amounts shown in th. €	**30.09.2008**	30.09.2007	**30.09.2008**	30.09.2007
Non-current assets	524,126	4,958,337	-	12,021
Current assets	278,926	1,503,345	-	7,010
Assets classified as held for sale	-	9,074	668,079	761,854
Assets	**803,052**	**6,470,756**	**668,079**	**780,885**
Non-current liabilities	20,096	1,384,621	-	16,605
Current liabilities	287,571	2,599,253	-	28,226
Liabilities relating to assets classified as held for sale	-	4,847	519,930	446,919
Liabilities	**307,667**	**3,988,721**	**519,930**	**491,750**

Acquisitions made in the 2007/2008 financial year relate primarily to the acquisitions of Hotels4U.com Limited, Thomas Cook (India) Limited, TriWest Travel Holdings, Jet Tours S.A. and Elegant Resorts Limited by Thomas Cook Group plc.

Divestments relate to the disposal of NeBus Mode & Preis, MultiBus and the Neckermann Group in the context of the disinvestment program in the Primondo segment.

Significant subsidiaries, joint ventures and associates

(as at 30.09.2008)

Corporation name and registered office	Capital holding in %	Equity* in th. €	**Sales* in th. €**	Employees[1] number
Thomas Cook				
Thomas Cook Group plc, Peterborough, England [4] [2]	53	2,541,638	10,698,901	33,031
Thomas Cook AG, Oberursel [4]	53	1,285,296	95,290	786
Primondo				
Primondo GmbH, Essen [3]	100	919,992	19	85
Primondo Specialty Group GmbH, Fürth [3]	100	613,469	93	-
Quelle GmbH, Fürth	100	325,896	2,449,062	3,385
TriStyle Mode GmbH & Co. KG, Fürth [2] [5]	51	23,590	625,912	670
Quelle Aktiengesellschaft, Linz, Austria	100	47,712	213,990	909
Versandhaus Walz GmbH, Baby-Walz, Die moderne Hausfrau, Bad Waldsee [2]	100	9,721	328,309	1,109
AFIBEL S.A., Villeneuve d'Ascq, France	99.49	48,792	165,522	558
Bon' A Parte Postshop A/S, Ikast, Danmark	100	12,772	30,382	279
Profectis GmbH Technischer Kundendienst, Nuremberg	100	1,008	88,554	1,028
Elegance Rolf Offergelt GmbH, Aachen [2]	100	12,506	95,063	307
Fox.Markt Handelsgesellschaft mbH & Co. KG, Fürth	100	7,995	28,522	335
Hess Natur-Textilien GmbH, Butzbach	100	15,355	54,110	223
servicelogiQ GmbH logistische Dienstleistungen, Nuremberg	100	-10,524	23,246	488
Quelle Versand AG, St. Gallen, Switzerland	100	14,233	50,095	102
KARSTADT QUELLE Information Services GmbH, Essen	100	80,357	63,752	249
Home Shopping Europe Holding GmbH, Ismaning	100	169,469	350,392	478
SAO „Mail Order Service", Moscow, Russia	100	17,524	150,432	214
Karstadt				
Karstadt GmbH, Essen [3]	100	454,086	-	-
Karstadt Warenhaus GmbH, Essen	100	480,351	4,027,915	21,090
Karstadt Feinkost GmbH & Co. KG, Cologne [5]	74.90	64,412	369,944	2,175
Le Buffet System- Gastronomie und Dienstleistungs-GmbH, Essen	100	4,423	24,730	276
Services				
KARSTADT QUELLE Service GmbH, Essen [3]	100	1,038,300	-	-
KARSTADT QUELLE Kunden-Service GmbH, Essen [3]	100	1,229,700	-	-
KARSTADT QUELLE Business Services GmbH, Essen [3]	100	133,195	-	-
KarstadtQuelle Finanz Service GmbH, Düsseldorf [5]	50	92,382	12,757	109
Real Estate				
KARSTADT Immobilien AG & Co. KG, Essen [3]	100	-850,296	20,432	3
KarstadtQuelle Joint Venture GmbH & Co. KG, Essen	100	44,978	-	-

* Data based on IFRS values.
1) Annual average, not including trainees.
2) Including subsidiaries.
3) Intermediate holding.
4) Financial year from 01.11.2007 bis 30.09.2008.
5) Joint ventures.

Notes to the consolidated income statement

PRELIMINARY REMARKS

Due to the following circumstances only a limited comparison of the consolidated income statement for the 2007/2008 financial year (October 1, 2007 to September 30, 2008) with the consolidated income statement for the 2007 short financial year (January 1, 2007 to September 30, 2007) is possible:

In the previous year, the financial year of the Arcandor Group was changed from the calendar year to the year ending September 30. The 2007 financial year was therefore a short financial year and comprised nine months. The 2007/2008 financial year comprises twelve months and ends on September 30, 2008.

In the reporting period, Thomas Cook Group plc changed its financial year to the year ending September 30. The 2007/2008 financial year is therefore a short financial year and comprises eleven months. The previous financial year comprised twelve months and ended on October 31, 2007.

In the reporting period, the income and expenses of Thomas Cook Group plc were reported at 100% for the eleven-month period from November 1, 2007 to September 30, 2008.

In the comparative period of the preceding year ending on September 30, 2007, the income statement for Thomas Cook AG and its subsidiaries was 50% consolidated for the five-month period from November 1, 2006 to April 1, 2007 and fully consolidated for the seven-month period from April 2, 2007 to October 31, 2007. The income and expenses of MyTravel plc and its subsidiaries were 100% consolidated for the period from June 19 to October 31, 2007.

1 SALES

The breakdown of sales by segment and region and the detailed notes are set out in the segment report.

Sales also include other operating income in the form of interest from installment credit operations of mail order companies in the amount of 118,747 th. € (previous year: 82,440 th. €).

Interest and commission from credit business at KarstadtQuelle Bank AG amounting to 20,008 th. € (previous year: 13,899 th. €) are also reported here.

Sales also include commission from the purchase and sale of foreign currencies at Thomas Cook AG exchange offices.

2 COST OF SALES AND EXPENSES FOR TOURISM SERVICES

Amounts shown in th. €	01.10.2007 – 30.09.2008	01.01.2007 – 30.09.2007
Cost of tourism services	8,070,051	6,371,317
Cost of purchased goods	4,602,557	3,191,773
Cost of purchased services	77,878	75,462
	12,750,486	9,638,552

Expenses for tourism services result mainly from the third-party purchase of advance materials and services. These include stopover services, flight and engineering costs, commissions, fees, aircraft fuel and supplies, transfer and other transportation costs, in-flight services, on-board sales materials, etc.

Operators' expenses are allocated to other periods under expenses for tourism services in alignment with allocation of operators' proceeds to other periods under IAS 18.

3 OTHER CAPITALIZED OWN COSTS

Other capitalized own costs include own costs from internally generated non-current assets, provided these developments were carried out mainly by employees of consolidated companies.

4 OPERATING INCOME

Amounts shown in th. €	01.10.2007 – 30.09.2008	01.01.2007 – 30.09.2007*
Income from the disposal of assets classified as held for sale	249,980	949,163
Rental income and commissions	133,237	92,276
Income from recharched goods and services	128,181	64,269
Income from advertising cost subsidies	113,830	89,894
Income from the reversal of other provisions	46,774	59,416
Income frome the release of other liabilities	34,068	20,979
Income from exchange-rate differences	21,118	1,648
Income from other services	13,970	11,092
Income from compensation	9,075	8,430
Income from the release of allowances	8,381	16,589
Income from the disposal of non-current assets	3,547	3,795
Other income	352,229	278,123
	1,114,390	1,595,674

* The data has been adjusted.

239,132 th. € of income from the disposal of assets held for sale in the 2007/2008 financial year related to income from the sale of the remaining 49% stake in Highstreet Holding GbR.

Other income mainly related to income from credit card business and on-charged costs.

5 STAFF COSTS

Amounts shown in th. €	01.10.2007 –30.09.2008	01.01.2007 –30.09.2007*
Wages and salaries	2,385,713	1,829,567
Social-security contributions and cost of pensions and welfare benefits	391,335	327,516
thereof for pensions	47,395	58,786
Other staff costs	35,499	5,512
	2,812,547	**2,162,595**

Wages and salaries included redundancy payments and costs of partial retirement arrangements amounting to 85,090 th. € (previous year: 139,617 th. €). Expenses for retirement benefits comprise service costs not including the corresponding interest component, which is recognized as other interest and similar expenses.

The average number of employees in the financial year was 86,244 (previous year: 95,501). Of these, 4,813 employees (previous year: 4,957 employees) are attributable to joint venture companies consolidated proportionately and 1,855 employees (previous year: 7,007 employees) to discontinued operations.

Phantom stock program (PSP) Arcandor AG

PSP Arcandor AG – Tranche 1

		30.09.2008
Commitment date	date	23.08.2007
Phantom stocks	number	997,069
Term of tranche	years	3
Conversion rate	in €	25.25
Exercise price	in €	30.55
Fair value of one phantom stocks	in €	0.00
Fair value of plan	in th. €	-
Expense for period	in th. €	-
Carrying amount of provision	in th. €	-
Outstanding phantom stocks at 01.10.2007	number	997,069
Expired phantom stocks	number	41,637
Outstanding phantom stocks at 30.9.2008	number	955,432
Exercisable phantom stocks	number	-

PSP Arcandor AG – Tranche 2

		30.09.2008
Commitment date	date	21.03.2008
Phantom stocks	number	988,056
Term of tranche	years	3
Conversion rate	in €	12.26
Exercise price	in €	14.83
Fair value of one phantom stocks	in €	0.04
Fair value of plan	in th. €	40
Expense for period	in th. €	40
Carrying amount of provision	in th. €	40
Outstanding phantom stocks at 30.09.2008	number	988,056
Expired phantom stocks	number	-
Exercisable phantom stocks	number	-

On March 21, 2007, the responsible committee of the Supervisory Board of Arcandor AG resolved to create a phantom stock program (PSP) for selected executives of the Group and the Management Board members of Arcandor AG.

Participation in the program is linked to the non-recurring investment of a bonus claim. The invested bonus claim is converted into phantom stocks in line with a prescribed formula and based on the price of Arcandor AG shares. A conversion rate of 25.25 € (60-day average price of Arcandor AG shares prior to March 21, 2007) was used for allocation of the first and second tranches. Participants receive eight phantom stocks for each notionally acquired share.

Each of these phantom stocks entitles the holder to payment of a cash amount immediately after a two-year vesting period and after achieving a performance target (increase in the price of Arcandor AG shares by at least 10 % p.a. over the term of the plan compared with the respective basis price). The claim to payment arises from the difference of the basis price and the exercise price, whereby the basis price is the respective share price on commitment and the exercise price is the identically calculated price for determining the achievement of the target.

The invested bonus can be claimed at any time and in any amount during the term of the program independent from the achievement of targets. Phantom stocks for the exercised portion of the bonus lapse without replacement. This also occurs if the vesting condition is not met or the holder leaves the company during the vesting period.

Starting with effect as at March 21, 2007, the program can be offered in four annual tranches with a maximum total term for the program of six years. The basis price for allocation and the performance target for each tranche will be calculated individually using the same scheme. The first and second tranches were offered with effect from March 21, 2007 and March 21, 2008 respectively. The responsible committee of the Supervisory Board will decide separately on whether or not to grant the individual tranches and can also limit the maximum payment amount per tranche. Thus, each tranche is measured separately and on the basis of the respective grant date and basis price.

The phantom stock plan is a cash-settled share-based payment as defined by IFRS 2.30 ff. The remuneration received is measured indirectly on the basis of the fair values of the debt instruments and is recognized pro rata over the vesting period both as staff costs and a provision. For the period between the start of the tranche's term and the grant date it will be assumed that the remuneration has already been paid. Thus, provisions will be recognized for the full claim already vested for this period as at the reporting date.

The fair value of the plan was calculated using a binomial model. Volatility is calculated in the amount of 105 % (1st tranche) and 72 % (2nd tranche), which was derived from the historical one-year volatility of Arcandor shares in Xetra trading. In addition, the distribution of an annual dividend in the amount of the risk-free interest rate of 3.17 % (1st tranche) and 3.42 % (2nd tranche) was assumed. A hypothetical zero-coupon bond with no risk of default and a two-year term was used for the respective risk-free interest rate.

Changes to the number of phantom stocks result from reduction in total investment, withdrawal from the respective company, the sale of companies by Arcandor or the termination of participation in the plan by beneficiaries. As of the reporting date, options still had not been exercised.

Performance Share Plan (PSP) Thomas Cook Group plc

PSP Thomas Cook – Commitment 2007

		30.09.2008
Commitment date	date	12.07.2007
Stock options	number	2,869,648
Term of tranche	years	10
Share price of commitment	in pence	297
Fair value of one stock option	in pence	214
Expense for period	in mill. €	2.1
Outstanding stock options at 01.11.2007	number	2,869,648
Expired stock options	number	368,492
Exercised stock options	number	83,333
Outstanding stock options at 30.09.2008	number	2,417,823
Exercisable stock options	number	-

PSP Thomas Cook – Commitment 2008 (1)

		30.09.2008
Commitment date	date	11.03.2008
Stock options	number	4,038,152
Term of tranche	years	10
Share price of commitment	in pence	283
Fair value of one stock option	in pence	193
Expense for period	in mill. €	1.7
Outstanding stock options	number	3,890,184
Expired stock options	number	147,968
Exercisable stock options	number	-

PSP Thomas Cook – Commitment 2008 (2)

		30.09.2008
Commitment date	date	26.06.2008
Stock options	number	266,179
Term of tranche	years	10
Share price of commitment	in pence	235
Fair value of one stock option	in pence	161
Expense for period	in mill. €	0.0
Outstanding stock options	number	266,179
Expired stock options	number	-
Exercisable stock options	number	-

On July 12, 2007, Thomas Cook Group plc established a stock option plan (Performance Share Plan) under which selected managers of the company and its subsidiaries are granted options over ordinary shares in the company. The options granted under the plan will vest if performance targets for earnings per share (EPS) and total shareholder return (TSR) for Thomas Cook Group plc are met during the three years following the date of grant. As of the reporting date, three commitments had been made in the context of the plan.

The exercise price per commitment is zero pence. Subject to vesting conditions within a period of three years, the options are exercisable at any time within a period of up to ten years after the date of grant.

The stock option plan qualifies as an equity-settled share-based payment transaction in accordance with IFRS 2.10 ff. Services received are measured indirectly by reference to the fair value of the equity instruments granted and are further recorded as personnel expense in future periods.

The fair value of the options subject to EPS performance targets was determined by the use of a Black-Scholes model and the fair value of the options subject to TSR performance targets was determined by the use of a Monte Carlo simulation. Expected volatility has been based on the historic volatility of the shares of MyTravel Group plc and Thomas Cook Group plc and the historic volatility of shares of other companies in the same or related sectors and has been set at 32 % (2007 commitment) and 34 % (2008 commitments) respectively. In addition, the distribution of an annual dividend of 3.0% (2007 commitment) and 5.0% (2008 commitments) was assumed. The risk-free interest rate was set at 5.7% (2007 commitment), 3.8% (first 2008 commitment) and 5.0% (second 2008 commitment) respectively.

As at the reporting date, 83,333 share options from the tranche issued in 2007 were exercised at an average price of 240 pence.

Save As You Earn Plan (SAYE) Thomas Cook Group plc

SAYE Thomas Cook 2008

		30.09.2008
Commitment date	date	16.06.2008
Stock options	number	3,349,444
Term of tranche	years	3.5
Share price of commitment	in pence	241
Fair value of one stock option	in pence	59
Expense for period	in mill. €	0.3
Outstanding stock options	number	3,327,150
Expired stock options	number	22,294
Exercisable stock options	number	-

On June 16, 2008, Thomas Cook Group plc established an employee profit-sharing program (Save As You Earn) under which certain entitled employees are offered options to buy ordinary shares in Thomas Cook Group plc.

The exercise price is 215 pence. The options can be exercised after a “saving phase” of three years and six months following commitment.

The SAYE plan qualifies as an equity-settled share-based payment transaction in accordance with IFRS 2.10 ff. Services received are measured indirectly by reference to the fair value of the equity instruments granted and are further recorded as personnel expense in future periods.

The fair value of the options was calculated using a Black-Scholes model. Expected volatility has been based on the historic volatility of the shares of Thomas Cook Group plc and the shares of other companies in the same or related sectors and has been set at 34%. In addition, the distribution of an annual dividend of 5.0% was assumed. The risk-free interest rate was set at 5.5%.

As of the reporting date, options still had not been exercised.

Co-Investment Plan (COIP) Thomas Cook Group plc

COIP Thomas Cook 2008

		30.09.2008
Commitment date	date	25.06.2008
Stock options	number	985,046
Term of tranche	years	10
Share price of commitment	in pence	237
Fair value of one stock option	in pence	204
Expense for period	in mill. €	0.3
Outstanding stock options	number	985,046
Expired stock options	number	-
Exercisable stock options	number	-

On June 25, 2008, Thomas Cook Group plc established a stock option plan (Co-Investment Plan) under which selected managers of the company and its subsidiaries are granted options over ordinary shares in Thomas Cook Group plc against investment of bonus claims.

The options granted under the plan will vest if performance targets for earnings per share (EPS) and return on invested capital (ROIC) for Thomas Cook Group plc are met during the three years following the date of grant. An option grants an entitlement to up to 3.5 shares, subject to meeting these targets.

The exercise price is 0 pence. Subject to vesting conditions, the options are exercisable up to ten years after the date of grant.

The COIP qualifies as an equity-settled share-based payment transaction in accordance with IFRS 2.10 ff. Services received are measured indirectly by reference to the fair value of the equity instruments granted and are further recorded as personnel expense in future periods.

The fair value of the options was calculated using a Black-Scholes model. Expected volatility has been based on the historic volatility of the shares of Thomas Cook Group plc and the shares of other companies in the same or related sectors and has been set at 34%. In addition, the distribution of an annual dividend of 5.0% was assumed. The risk-free interest rate was set at 5.2%.

As of the reporting date, options still had not been exercised.

6 OPERATING EXPENSES

Amounts shown in th. €	01.10.2007 –30.09.2008	01.01.2007 –30.09.2007*
Logistics costs	940,069	642,938
Operating and office/workshop costs	933,831	763,439
Administrative costs	628,251	464,694
Advertising	611,049	438,973
Catalog costs	562,237	424,001
Reorganization	366,744	195,272
Allowances on and derecognition of trade receivables	113,953	96,528
Outside staff	23,439	14,565
Expenses due to currency differences and losses	17,153	3,455
Losses from the disposal of fixed assets	9,823	15,009
Losses from the disposal of assets classified as held for sale	-	9,635
Other expenses	336,530	135,615
	4,543,079	**3,204,124**

* The data has been adjusted.

In addition to costs for logistics services resulting from outsourcing agreements with Deutsche Post AG, the logistics costs also include commissions and other distribution and mail-order costs.

Operating and office/workshop costs mainly include leases, maintenance and service costs, and energy costs.

Other expenses include charges due from intercompany transactions and deconsolidation losses. Furthermore, costs for the purchase of energy are reported on a gross basis, corresponding with income.

7 OTHER TAXES

Other taxes mainly include property tax, excise tax and transaction taxes.

8 DEPRECIATION AND AMORTIZATION (NOT INCLUDING AMORTIZATION OF GOODWILL)

Amounts shown in th. €	01.10.2007 –30.09.2008	01.01.2007 –30.09.2007
Depreciation/amortization on tangible and intangible assets	446,449	371,048
Impairment of tangible assets	58,892	6,110
Impairment of intangible assets	15,721	5,626
Impairment of current assets	7,790	6,171
	528,852	**388,955**

Impairment of 65.3 mill. € primarily related to intangible assets, tangible assets (leasehold improvements) and finance leases in the Karstadt segment. Each individual department store is classified as a cash generating unit.

As at the reporting date, the impairment test in accordance with IAS 36 had been carried out for those cash generating units for which internal reporting had shown that the economic performance of the respective unit was falling considerably short of planning.

The recoverable amount was calculated as value in use. Cash flows (free cash flow) in respect to sales growth, purchase price development, staff costs etc. were estimated on the basis of forecasts and medium-term planning until 2012 and then adjusted up to the end of the respective useful life of the cash generating unit (growth rate of 1 %). Cash flows were discounted using a weighted average cost of capital (WACC) of 8.2 %. Corporate assets were included in the carrying amount of the cash generating units where applicable.

9 EXPENSES IN CONNECTION WITH SALES OF RECEIVABLES

Expenses in connection with sales of receivables are calculated as a percentage of proceeds from the sale of receivables and do not relate to credit risks resulting from the sales of receivables.

10 INCOME FROM INVESTMENTS

Amounts shown in th. €	01.10.2007 –30.09.2008	01.01.2007 –30.09.2007
Income from shares in related companies	1,974	8,723
Income from other investments	5,959	3,482
thereof affiliated companies	29	42
Income from profit ans loss transfer agreements	462	290
Expenses for the assumption of losses	-6,366	-1,857
Impairment of financial assets	800	1,431
Write-downs on financial assets	-3,456	-5,843
	-627	**6,226**

In the 2007/2008 financial year the write-downs on financial assets mainly related to the investment in Agentrics LLC, Alexandria, USA. In the previous year, write-downs on financial assets mainly related to the department store WERTHEIM Gesellschaft mit beschränkter Haftung, Berlin.

11 INCOME FROM INVESTMENTS IN ASSOCIATES

This item includes the pro rata annual result from investments in associates measured under the equity method as well as impairment of carrying amounts and expenses from the assumption of losses. This includes 1,542 th. € (previous year: 2,441 th. €) for the pro rata share of CAP GmbH, Bonn, and the pro rata share of investments accounted for under the equity method of the KarstadtQuelle Finanz Service subgroup amounting to 2,232 th. € (previous year: 3,748 th. €).

The breakdown of income from investments in associates by segment is shown in the segment report on pages 96 and 97.

12 NET INTEREST INCOME

Amounts shown in th. €	**01.10.2007 – 30.09.2008**	01.01.2007 – 30.09.2007
Interest and similar income		
Other interest and similar income	190,856	161,824
thereof associates	1,277	1,179
Interest and similar expenses		
Interest expense on additions to pension provisions	-167,295	-132,505
Other interest and similar expenses	-359,725	-167,023
thereof associates	-1,593	-858
	-527,020	**-299,528**
Net interest income	**-336,164**	**-137,704**
Thereof from financial instruments of the measurement categories in line with IAS 39:		
Loans and receivables	64,569	70,311
Held for trading	54	-
Held to maturity financial assets	-	891
Financial liabilities measured at amortized cost	-302,917	-141,733
Financial liabilities measured at fair value	-8,375	-

Other interest and similar income includes 123,979 th. € (previous year: 61,065 th. €) in expected returns on plan assets and 547 th. € (previous year: 3,820 th. €) in income from interest rate swaps.

13 OTHER FINANCIAL RESULTS

Amounts shown in th. €	**01.10.2007 – 30.09.2008**	01.01.2007 – 30.09.2007
Other financial expenses	-27,663	-25,351
Other financial income	7,171	15,204
	-20,492	**-10,147**

Other financial expenses and other financial income relate mainly to valuation gains or losses from the valuation of share options interest-rate swaps.

14 TAXES ON INCOME

Taxes on income comprise current income taxes paid or owed and deferred taxes. Taxes on income include corporation tax, solidarity surcharge, trade tax and comparable income taxes in foreign countries. As in the previous year, corporations located in Germany are subject to the following effective tax rates: A corporation tax rate of 15.0 % (previous year: 25.0 %) and a 5.5 % solidarity surcharge as in the previous year, as well as a trade tax whose amount is determined based on the individual municipal trade tax rates. Deferred taxes are subject to corporation tax of 15 %, a solidarity surcharge of 5.5 % and trade tax, the amount of which is based on the individual municipal trade tax rates. The income tax for foreign companies ranged between 10 % and 35 % (previous year: between 15 % and 34 %).

Taxes on income are broken down as follows according to their origin:

Amounts shown in th. €	**01.10.2007 – 30.09.2008**	01.01.2007 – 30.09.2007*
Current taxes on income and earnings		
Germany	1,364	-84,826
Other countries	-73,996	-44,306
	-72,632	**-129,132**
Deferred taxes		
from changes in temporary differences	140,532	-44,849
from loss carried forward	-206,255	-89,713
	-65,723	**-134,562**
Tax expense in consolidated income statement	**-138,355**	**-263,694**
Tax expenses shown under income from discontinued operations	7,885	11,256
	-130,470	**-252,438**

* The data has been adjusted.

Expected taxes on income, which would have resulted from applying the average domestic tax rate of 31 % (previous year: 39 %) to IFRS consolidated earnings before taxes, can be reconciled to taxes on income in the consolidated income statement as follows:

Reconciliation from expected to actual tax expense

Amounts shown in th. €	01.10.2007 - 30.09.2008	01.01.2007 - 30.09.2007*
Net profit/loss for the year before taxes on income (including discontinued operations)	**-608,555**	**397,861**
Expected tax income/expense	188,652	-155,166
Trade tax additions/reductions	22,259	83,533
Tax on income for previous years	15,022	-51,937
Effects of differing tax rates	14,790	25,081
Effects of tax-free income	32,168	34,081
Permanent differences	3,139	-80,380
Operating expenses which are not tax deductible	-82,138	-77,114
Effects of changes in tax rates	1,259	-7,178
Non-capitalized losses carried forward	-332,091	-22,004
Other differences	6,470	-1,354
Tax expenses in consolidated income statement including discontinued operations	**-130,470**	**-252,438**

* The data has been adjusted.

15 RESULTS FROM DISCONTINUED OPERATIONS

Amounts shown in th. €	01.10.2007 - 30.09.2008	01.01.2007 - 30.09.2007*
Sales and operating income	667,044	1,509,355
Operating and other expenditure	-713,496	-1,589,545
Earnings before taxes	**-46,452**	**-80,190**
Attributable tax income/expense	7,885	11,256
Earnings after taxes	**-38,567**	**-68,934**
Loss from the revaluation of assets classified as held for sale	-	-173,400
Result from discontinued operations	**-38,567**	**-242,334**
thereof from deconsolidation		1,204
Cash flow		
from operating activities	-31,651	-42,502
from investing activities	-5,825	3,119
from financing activities	-1,778	-1,507

* The data has been adjusted.

16 PROFIT/LOSS DUE TO MINORITY INTERESTS

Amounts shown in th. €	01.10.2007 - 30.09.2008	01.01.2007 - 30.09.2007
Losses relating to minorities	51	1,195
Profits relating to minorities	-6,684	-120,081
	-6,633	**-118,886**

17 EARNINGS PER SHARE

		01.10.2007 - 30.09.2008	01.01.2007 - 30.09.2007*
Group earnings after minorities	th. €	**-745,658**	**26,537**
Earnings per share (undiluted)			
Average shares (01.10.–30.09./01.01.–30.09.)	number	222,316,419	206,674,488
Earnings per share	€	**-3.35**	**0.13**
thereof from continuing operations	€	-3.18	1.30
thereof from discontinued operations	€	-0.17	-1.17
Earnings per share (diluted)			
Average shares (01.10.-30.09./01.01.-30.09.)	number	224,507,701	222,076,257
Earnings per share			
thereof from continuing operations	€	-	1.23

* The data has been adjusted.

Earnings per share are calculated in accordance with IAS 33 by dividing the net profit/loss attributable to the Arcandor Group and the weighted average number of outstanding shares during the financial year. A pro rata temporis increase in the number of shares was taken into account for exercising options and bond conversions. The increase against the previous year is mainly due to exercised conversion rights (weighted: 7,043,876 shares) as well as a subscribed capital increase and the respective payment as at September 29, 2008 (weighted: 62,898 shares).

Dilution of earnings per share may result from so-called potential shares. A dilution effect must be expected due to the issuing of the convertible bond by Karstadt Finance B.V., Hulst/Netherlands. In calculating diluted earnings per share, interest expense of 3,092 th. € (previous year: 4,867 th. €) was not included. On December 27, 2007, the option right to discharge the convertible bond was exercised by delivering shares. Thus, the possible dilutive effect will no longer exist from December 2007.

Since potential shares would decrease the loss per share, diluted earnings per share will not be reported for the 2007/2008 financial year. In the 2007 short financial year, a dilutive effect only existed for results from continuing operations.

Notes to the consolidated balance sheet

18 INTANGIBLE ASSETS

Performance 01.01.–30.09.2007

Amounts shown in th. €	Acquired intangible assets	Internally generated intangible assets	Goodwill	Manufacturing costs	Total
Historic purchase and manufacturing costs					
As at 01.01.2007	457,380	153,743	770,965	55,717	1,437,805
Addition to/derecognition from consolidated companies	1,496,296	33,257	2,202,199	1,291	3,733,043
Translation differences	-5,574	-97	-54,863	1	-60,533
Additions	49,064	39,109	1,973	37,685	127,831
Reclassifications	23,055	8,381	-	-31,436	-
Reclassification of assets classified as held for sale	23,649	31,434	-	1,944	57,027
Disposal	-20,237	-642	-5,420	-2,740	-29,039
As at 30.09.2007	**2,023,633**	**265,185**	**2,914,854**	**62,462**	**5,266,134**
Accumulated depreciation					
As at 01.01.2007	282,302	95,885	86,385	-	464,572
Addition to/derecognition from consolidated companies	93,879	14,596	-	-	108,475
Translation differences	-2,855	-98	-61	-	-3,014
Additions	148,535	29,745	-	-	178,280
Reclassifications	-	-	-	-	-
Reclassification of assets classified as held for sale	22,295	5,331	-	-	27,626
Disposal	-17,265	-206	-	-	-17,471
As at 30.09.2007	**526,891**	**145,253**	**86,324**	**-**	**758,468**
Book value as at 30.09.2007	**1,496,742**	**119,932**	**2,828,530**	**62,462**	**4,507,666**

Performance 01.10.2007–30.09.2008

Amounts shown in th. €	Acquired intangible assets	Internally generated intangible assets	Goodwill	Manufacturing costs	Total
Historic purchase and manufacturing costs					
As at 01.10.2007	2,023,633	265,185	2,914,854	62,462	5,266,134
Addition to/derecognition from consolidated companies	121,373	1,415	400,875	703	524,366
Translation differences	-98,191	393	-182,500	11	-280,287
Additions	83,469	23,364	-	33,016	139,849
Reclassifications	-52,090	79,235	-	-27,145	-
Reclassification of assets classified as held for sale	-6,779	-7,659	-13,083	-1,408	-28,929
Disposal	-18,289	-8,054	-	-3,250	-29,593
As at 30.09.2008	**2,053,126**	**353,879**	**3,120,146**	**64,389**	**5,591,540**
Accumulated depreciation					
As at 01.10.2007	526,891	145,253	86,324	-	758,468
Addition to/derecognition from consolidated companies	29,467	-15	-6,980	-	22,472
Translation differences	-15,549	425	-5,814	-	-20,938
Additions	156,217	40,968	-	-	197,185
Reclassifications	-50,692	50,692	-	-	-
Reclassification of assets classified as held for sale	-6,085	-6,974	-13,083	-	-26,142
Disposal	-10,901	-4,254	-	-	-15,155
As at 30.09.2008	**629,348**	**226,095**	**60,447**	**-**	**915,890**
Book value as at 30.09.2008	**1,423,778**	**127,784**	**3,059,699**	**64,389**	**4,675,650**

Significant additions to the consolidated companies in acquired intangible assets related to concessions and licenses, trademarks, customer base and order backlog totaling 103.9 mill. € (previous year: 1.35 bill. €) due to the acquisition of Hotels4U.com Limited, Thomas Cook (India) Limited and Elegant Resorts Limited by Thomas Cook Group plc.

Trademarks of 947.4 mill. € (previous year: 1.01 bill. €) are largely intangible assets with an unlimited useful life. On the basis of the analysis of the relevant factors (planning for the future use of assets, expected market behavior, etc.), there is no foreseeable end to the period in which the trademarks are expected to generate net cash flows. Of these, 910.5 mill. € (previous year: 975.5 mill. €) relates to Thomas Cook and 36.9 mill. € (previous year: 34.3 mill. €) relates to Primondo and will be included there in the impairment test.

All corporate acquisitions are accounted for under the purchase method. Allocation of goodwill by segment is as follows:

Carrying amounts of goodwill

Amounts shown in th. €	30.09.2008	30.09.2007
Thomas Cook	2,858,954	2,624,407
Primondo	200,745	204,123
	3,059,699	**2,828,530**

Goodwill is recognised on the basis of expected future synergies from company acquisitions. These were paid for as part of acquisition costs.

Goodwill was allocated to the cash-generating units (CGUs) in accordance with the Group's management structure. The following are therefore treated as CGUs: Karstadt, Universal Mail Order, the CGUs Golden Ager, Community and Premium within Specialty Mail Order, Services, and Real Estate. Within Thomas Cook, following the merger with MyTravel, the CGUs were identified as Continental Europe, North Europe, the UK and Ireland, North America and Airline (Germany).

Within Thomas Cook, significant goodwill is included in the UK CGU and, within Primondo, in the Universal Mail Order CGU.

On examining goodwill for any impairment loss under IAS 36, the recoverable amount of cash-generating units is determined at value in use.

Fair value is calculated on the basis of a discounted cash flow model. Calculation of fair value and value in use are based on cash flow plans approved by the Management Board which are in turn based on detailed medium-term planning for a period of up to four years.

These plans result from past experience and from anticipated future market trends. Growth rates which reflect the assumed average growth in the market or in the sector of the businesses concerned are applied for the period after the detailed planning horizon. Cash flows for periods beyond the planning period are always extrapolated on the basis of a growth rate of 1%. Discount rates after tax are determined on the basis of market data and range between 5.8% and 9.4% for the cash-generating units (previous year: 4.6% and 8.2%).

The additions to goodwill from changes in consolidated companies relate primarily to the acquisition of Hotels4U.com Limited, Thomas Cook (India) Limited, Elegant Resorts Limited, TriWest Travel Holdings, and Jet Tours S.A. by Thomas Cook Group plc.

In the 2007/2008 financial year, as in the previous year, no impairments were recorded.

19 TANGIBLE ASSETS, INVESTMENT PROPERTY

Performance 01.01.–30.09.2007

Amounts shown in th. €	Land and buildings	Aircraft and replacement engines	Technical plant and machinery	Other plant, fixtures, furniture and office equipment	Advance payments and construction in progress	**Total**
Historic purchase and manufacturing costs						
As at 01.01.2007	1,085,663	771,045	44,525	1,828,607	6,592	3,736,432
Addition to/derecognition from consolidated companies	306,461	1,474,447	15,576	375,581	2,640	2,174,705
Translation differences	-1,917	-26,307	12	-8,430	-3	-36,645
Additions	44,231	5,016	1,972	63,232	11,482	125,933
Reclassifications	472	514	-	787	-1,773	-
Reclassification of assets classified as held for sale	-8,299	-	56,830	158,841	1,003	208,375
Disposal	-12,358	-20,095	-34	-65,138	-5,097	-102,722
As at 30.09.2007	**1,414,253**	**2,204,620**	**118,881**	**2,353,480**	**14,844**	**6,106,078**
Accumulated depreciation						
As at 01.01.2007	612,314	453,895	26,314	1,619,360	-	2,711,883
Addition to/derecognition from consolidated companies	74,506	853,094	9,256	276,502	-	1,213,358
Translation differences	-1,446	-15,086	14	-6,643	-2	-23,163
Additions	50,078	77,287	6,137	67,740	3,262	204,504
Reclassifications	-	-	-	-	-	-
Reclassification of assets classified as held for sale	-1,265	-	46,958	152,966	-	198,659
Disposal	-12,149	-12,454	-25	-62,221	-	-86,849
As at 30.09.2007	**722,038**	**1,356,736**	**88,654**	**2,047,704**	**3,260**	**4,218,392**
Book value as at 30.09.2007	**692,215**	**847,884**	**30,227**	**305,776**	**11,584**	**1,887,686**

Performance 01.10.2007–30.09.2008

Amounts shown in th. €	Land and buildings	Aircraft and replacement engines	Technical plant and machinery	Other plant, fixtures, furniture and office equipment	Advance payments and construction in progress	**Total**
Historic purchase and manufacturing costs						
As at 01.10.2007	1,414,253	2,204,620	118,881	2,353,480	14,844	6,106,078
Addition to/derecognition from consolidated companies	2,753	-	160	20,522	152	23,587
Translation differences	-7,472	-60,050	29	-32,986	-71	-100,550
Additions	632,199	36,454	1,002	128,493	47,033	845,181
Reclassifiations	-18,995	11,051	-31,013	47,289	-8,332	-
Reclassification of assets classified as held for sale	2,360	-	-21	-744	-	1,595
Disposal	-66,613	-6,148	-1,186	-176,399	-13,335	-263,681
As at 30.09.2008	**1,958,485**	**2,185,927**	**87,852**	**2,339,655**	**40,291**	**6,612,210**
Accumulated depreciation						
As at 01.10.2007	722,038	1,356,736	88,654	2,047,704	3,260	4,218,392
Addition to/derecognition from consolidated companies	-2,704	-	-300	9,067	-	6,063
Translation differences	-3,365	-38,603	38	-26,451	-	-68,381
Additions	110,811	104,939	5,315	102,872	-	323,937
Reclassifications	-18,551	8,928	-18,662	28,285	-	-
Reclassification of assets classified as held for sale	2,313	-	-21	-455	-	1,837
Disposal	-51,230	-5,445	-1,115	-168,974	-2,975	-229,739
As at 30.09.2008	**759,312**	**1,426,555**	**73,909**	**1,992,048**	**285**	**4,252,109**
Book value as at 30.09.2008	**1,199,173**	**759,372**	**13,943**	**347,607**	**40,006**	**2,360,101**

As at the balance sheet date, Thomas Cook had 93 aircraft (previous year: 97). Of the 46 aircraft (previous year: 46) reported under fixed assets of the Thomas Cook Group at the balance sheet date 20 (previous year: 20) are legal property, of which 9 (previous year: 13) aircraft are debt financed. The 26 remaining aircraft recognized in the balance sheet (previous year: 26) are economic property, with legal ownership being held by lessors outside the Group. 47 aircraft (previous year: 51) are leased under operating lease agreements and are owned neither legally nor economically by the Group.

Major inspections of aircraft are capitalized in accordance with IAS 16.14 and are amortized over the period until the next scheduled inspection. In the current financial year, after no major inspections in the previous year, five major inspections were conducted and capitalized at 2,897 th. €.

Financial investments in land and buildings (investment properties) are recognized and measured at amortized cost. As at September 30, 2008, carrying costs totaled 19,784 th. € (previous year: 93 th. €). At the end of the past financial year, in the Thomas Cook segment, land and an adjoined building to the value of 19,691 th. € was reclassified following a long-term lease extension from assets held for sale to financial investments. As at the reporting date, market values of financial investments, which are mainly based on internally adjusted assessments by third parties, amounted to 19,891 th. €.

The income statement includes recognition of lease income from financial investments in land and buildings totaling 1,804 th. € (previous year: 102 th. €) and the associated operating expenditure of 754 th. € (previous year: 137 th. €). In the 2007/2008 financial year, as in the previous year, no disposals of investment property were calculated.

Significant additions in the financial year relate to Karstadt segment at 622.5 mill. €, Thomas Cook at 104.6 mill. €, Real Estate at 62.8 mill. €, and Primondo at 52.6 mill. €. Additions totaling 519.3 mill. € at Karstadt relate primarily to the first-time capitalization of individual finance leases as a result of changes to lease agreements in 2008.

Material disposals relate to Thomas Cook at 15.6 mill. €, Karstadt at 15.3 mill. €, and Primondo at 3.0 mill. €.

The translation differences in tangible assets mainly relate to the Thomas Cook segment. These arise predominantly from GBP/euro conversion.

The economic ownership of leased property is assessed in accordance with IAS 17. If this is to be assigned to a Group company, the leased object is capitalized at fair value or the lower present value of lease payments when the property is first used. At the same time, a corresponding amount is shown as a liability.

Finance lease agreements all have a contractually agreed minimum lease period of between 15 and 25 years, or in the case of Thomas Cook, between 7.5 and 12.5 years, as well as a purchase option for the lessee after expiry of the minimum lease period.

Commitments under finance and operating lease agreements

	Total		Remaining term of up to 1 year		Remaining term of 1 to 5 years		Remaining term of over 5 years	
Amounts shown in th. €	**30.09.2008**	30.09.2007	**30.09.2008**	30.09.2007	**30.09.2008**	30.09.2007	**30.09.2008**	30.09.2007
Finance lease agreements								
Lease payments due in future	1,946,844	1,134,309	342,506	173,682	690,230	628,537	914,108	332,090
Discount	-687,884	-320,015	-36,655	-52,296	-182,407	-118,824	-468,822	-148,895
Present value	**1,258,960**	**814,294**	**305,851**	**121,386**	**507,823**	**509,713**	**445,286**	**183,195**
Lease payments under subleases	163,321	25,484	27,450	3,092	76,378	12,203	59,493	10,189
Operating lease agreements								
Lease payments due in future	5,213,823	6,658,978	641,686	771,527	1,998,300	2,441,539	2,573,837	3,445,912
thereof IFRS 5	-	171,563	-	16,025	-	66,640	-	88,898
Lease payments under subleases	477,030	664,501	96,537	113,975	244,103	313,618	136,390	236,908

As at the balance sheet date, assets under finance lease agreements have a carrying amount of 866,807 th. € (previous year: 408,735 th. €). These assets relate mainly to buildings, aircraft and spare engines for which the present value of the future minimum lease payments covers purchase costs. The significant increase in assets from finance lease agreements is largely due to the first-time capitalization of individual finance leases at Karstadt as a result of rent increases in 2008. For aircraft financing, after expiry of the lease period, there is usually a purchase option for the residual value plus an amount equivalent to 25% of the amount by which the market value exceeds the residual value. If the purchase option is not exercised, the aircraft is sold by the lessor. If the sale proceeds are less than the residual value, the lessee must reimburse the difference to the lessor. The lessee is entitled to up to 75% of the amount by which the sales proceeds exceed the residual value.

Operating lease agreements mainly comprise building leases without purchase options or aircraft leases where the assessment of IAS 17 criteria resulted in classification as an operating lease. See also Item 31 “Financial liabilities” for securities provided for consolidated liabilities and restrictions on availability.

20 SHARES IN ASSOCIATES

Shares in associates refer to companies under significant influence of the Group. These companies are accounted for at equity in the consolidated financial statements.

Financial information relating to associates

Amounts shown in th. €	30.09.2008	30.09.2007
Assets	238,903	1,196,537
Liabilities	50,030	1,074,750

Amounts shown in th. €	01.10.2007 –30.09.2008	01.01.2007 –30.09.2007
Sales revenue/income	71,197	301,842
Profit/loss	8,133	12,677

Of the carrying amounts, 77.4 mill. € (previous year: 75.0 mill. €) relates to the Thomas Cook segment and 21.1 mill. € (previous year: 65.9 mill. €) to Services. No carrying amounts relate to the Real Estate segment (previous year: 16.6 mill. €)

The decline is principally due to the reclassification of assets in KarstadtQuelle Lebensversicherungs AG and QVH Beteiligungs GmbH into assets held for sale and liabilities relating to assets classified as held for sale. These companies have assets of 908.2 mill. €, liabilities of 876.0 mill. €, sales revenue/income of 103.8 mill. €, and a profit of 3.7 mill. for the 2007/2008 financial year.

21 NON-CURRENT FINANCIAL ASSETS

Amounts shown in th. €	30.09.2008	30.09.2007*
Loans and receivables granted	378,785	389,664
Financial assets available for sale	237,560	95,626
Derivatives	97,061	29,914
Other assets	101	756
	713,507	515,960

* The data has been adjusted.

Non-current financial assets include receivables from installment credit business, non-consolidated shares in affiliated companies and participating interests and loans.

In connection with the issue of a convertible bond, a call option was agreed on shares of Thomas Cook Group plc and currency hedging transactions concluded.

The fair values of the call options on shares of Thomas Cook Group plc and the British pound were calculated using option pricing models. For the call option on shares, a volatility of 42.48% and a risk-free interest rate of 5.793% was set, and for the call options on the British pound, a volatility of 9.13% and a risk-free interest rate of 5.793% was set. The remaining term of the call option on shares in Thomas Cook Group plc is 1,730 days. The call option has an exercise price of 2.8380 €. The remaining terms of the call options on the British pound are 1,743 and 1,010 days respectively, with an exercise price of 0.7903 GBP.

22 OTHER NON-CURRENT ASSETS

Other non-current assets include security deposits as well as hotel prepayments, receivables from other taxes and prepaid expenses.

23 DEFERRED TAXES

Deferred taxes are calculated on the basis of tax rates applicable in the individual countries in accordance with current law or expected at the realization date. In Germany, a tax rate of approximately 31% (previous year: approximately 31%) was applied, comprising corporation tax of 15.0% (previous year: 15.0%), a solidarity surcharge of 5.5%, and an average trade tax rate of 15.18%. Companies organized in the legal form of an unincorporated company or partnership are always liable to pay trade tax. In Germany, tax losses carried forward can only be used to a limited extent within the scope of minimum taxation. Accordingly a positive basis of tax assessment of up to 1 mill. € is without limitation and amounts exceeding this basis are to be reduced by an existing loss carried forward up to a maximum of 60%. Tax rates in foreign countries ranged between 10% and 35% (previous year: between 15% and 34%).

Deferred tax assets and liabilities result from temporary differences and tax loss carryforwards as follows:

Deferred tax assets and liabilities

	Assets		Liabilities	
Amounts shown in th. €	**30.09.2008**	30.09.2007	**30.09.2008**	30.09.2007
Non-current assets	151,817	143,554	630,859	502,392
Current assets	88,379	43,329	71,842	159,859
Non-current liabilities	562,748	340,575	267,468	264,737
Current liabilities	126,411	99,390	158,062	39,864
Losses carried forward	418,644	638,320	-	-
Set off	-737,974	-588,764	-737,974	-588,764
Consolidated balance sheet	**610,026**	**676,404**	**390,257**	**378,088**
Realting to assets and liabilities classified as held for sale	752	5,397	117	16,494

Deferred tax assets on temporary differences and tax loss carry forwards are recognized only to the extent that there are sufficient taxable temporary differences or their realization is guaranteed with sufficient certainty for the near future on the basis of tax planning calculations.

At the balance sheet date, deferred tax assets were calculated on trade losses to the value of 418.6 mill. € (previous year: 638.3 mill. €). The realization of part of these deferred tax assets for tax losses carried forward of 61.6 mill. € depends on future tax results. In view of the measures initiated in the context of the so-called “Pact for the Future” and a program for increasing efficiency, these can be generated with sufficient certainty. The same applies to part of the tax losses carried forward on temporary differences of 64 mill. €.

Deferred tax assets were not recognized for corporate tax loss carryforwards of 1.89 bill. € (previous year: 0.95 bill. €), of which 891 th. € can be used abroad within the next 9 years and 206 th. € within the next 9 years. No deferred tax assets were calculated on trade tax loss carryforwards (domestic) of 4.96 bill. € (previous year: 4.08 bill. €). As a result of a change of shareholders at Arcandor, tax loss carryforwards at Arcandor AG were reduced by 29 %. There are no restrictions under current law in Germany for tax loss carryforwards. In the reporting year, there was an allowance totaling 205.7 mill. € on tax loss carryforwards for deferred taxes recognized in the previous year.

The deferred tax liabilities recognized in equity of 44,337 th. € (previous year: deferred tax assets of 10,718 th. €) relate primarily to the recognition of derivative financial instruments at fair value. In the previous year, the deferred tax assets taken to equity mainly arose from the recognition of Highstreet Holding GbR at market value.

Deferred tax assets and liabilities are offset against one another to the total amount of 737,974 th. € (previous year: 588,764 th. €).

24 INVENTORIES

Amounts shown in th. €	**30.09.2008**	30.09.2007
Raw materials and supplies	26,130	35,293
Merchandise	1,339,991	1,251,776
Advance payments	770	1,677
	1,366,891	**1,288,746**

Breakdown by business segment

Amounts shown in th. €	**30.09.2008**	30.09.2007
Thomas Cook	30,470	27,470
Primondo	578,801	520,767
Karstadt	740,146	719,185
Other	17,474	21,324
	1,366,891	**1,288,746**

Due to the measurement of the inventories in accordance with the retrograde method, it is not possible to state the carrying amount of inventories at net realizable value.

The carrying amount of inventories pledged as collateral is 1.04 bill. € (previous year: 994 mill. €).

Total cumulative depreciation on inventories amounted to 242.9 mill. € in the year under review (previous year: 268.3 mill. €).

25 TRADE RECEIVABLES

Breakdown by business segment

Amounts shown in th. €	**30.09.2008**	30.09.2007
Thomas Cook	417,803	292,698
Primondo	248,991	298,881
Karstadt	31,134	39,881
Services	14,223	48,863
Other	2,982	5,533
	715,133	**685,856**

Maturities of unimpaired trade receivables

Amounts shown in th. €	**30.09.2008**	30.09.2007
Trade receivables	**715,133**	**685,856**
thereof neither impaired nor overdue as at the balance sheet date:	398,475	454,981
thereof with a remaining term of less than 1 year	398,475	454,981
thereof not impaired as at the balance sheet date and due in the following periods:		
less than 30 days	115,927	61,816
between 30 and 90 days	45,316	23,377
between 91 and 360 days	42,757	51,770
more than 360 days	112,658	93,912

Changes in allowances on trade receivables

Amounts shown in th. €	30.09.2008	30.09.2007
As at 01.10./01.01.	97,631	216,845
Appropriation *	75,092	49,971
Utilization	-71,500	-152,596
Reversal	-6,749	-16,589
As at 30.09.	**94,474**	**97,631**

* Expenses for allowances.

Expenses/income

Amounts shown in th. €	01.10.2007 –30.09.2008	01.01.2007 –30.09.2007
Expenses for the full derecognition of receivables	35,120	46,537
Income from recoveries on loans previously written off	8,412	6,492

Factoring in the Primondo subgroup

Various German and foreign companies in the Primondo subgroup sell mail order receivables that satisfy specific suitability criteria either directly or indirectly on an ongoing basis as part of a factoring program to VALOVIS Bank AG and ABN Amro as factors. As at September 30, 2008, the total receivables volume sold (nominal value) for Germany and abroad was 1.18 bill. € (previous year: 1.82 bill €).

Suitable receivables are purchased on a daily basis and cleared at the end of the month. The actual transfer of receivables is effected by a general security assignment without assuming guarantees for credit-related default by the receivable seller. Various standard purchase price discounts with a total amount of 266.2 mill. € (previous year: 547.0 mill. €) were deducted from the nominal value of the mail order receivables. In addition, cash collateral of 103.9 mill. € (previous year: 120.0 mill €) has been retained.

All purchase prices calculated after the deduction of risk premiums are provisional. The nominal values include nominal amount credit fees as an interest component of total receivables until the repayment date of the last installment. Retained collateral discounts are adjusted on a portfolio basis depending on actual incoming payments either as a premium or a second purchase price installment. Receivables forwarded to collection companies can be surrendered to the receivable seller at fair value without giving rise to a buyback obligation.

There is no allowance account as defined by IFRS 7.16 for receivables sold in the factoring program.

On account of the partially variable purchase price discounts, not all the risks and rewards are transferred or retained with the sale of the receivables (continuing involvement). The variable discount is only paid out if and when payments from the sold receivables are received that exceed the reduced purchase price. As at September 30, 2008, a receivable for payment of the remaining purchase price and an associated liability were each recognized at 130.6 mill € (previous year: 279.0 mill. €). As at the balance sheet date, a liquidity effect of 817.2 mill. € (previous year: 1.15 bill. €) was generated from the total amount of the receivables sold.

In addition to the continuing involvement in the Primondo subgroup, the Arcandor Group has no other partial derecognition of financial assets as defined by IFRS 7.13.

In addition to the continuing involvement, the Group has also recognized unsuitable current mail order receivables and bought back doubtful receivables. The cost of the doubtful receivables bought back in the receivables selling program is 40 % of their original nominal value.

The impairment requirements for current mail order receivables are calculated using group assessments on the basis of historical data with portfolios formed according to defined characteristics. Portfolios are formed either by age and arrears classes or individually calculated credit ratings for individual customers.

Mail order receivables passed on to collection agencies are classified as doubtful receivables and broken down by the years in which collection proceedings were initiated. Impairment requirements are calculated on a portfolio basis for each year group. At each balance sheet date, the realization rates are forecast for the receivables based on historical data. Deviations of actual incoming payments from historical data lead to adjustments of the entire forecast response rate for that year group.

The measurement of uncollectable receivables in classic collection proceedings (long-term monitoring portfolios) is as for doubtful receivables.

26 CURRENT FINANCIAL ASSETS

Amounts shown in th. €	30.09.2008	30.09.2007*
Market values of derivative financial instruments	343,369	114,194
Factoring holdback	233,886	303,677
Debit balances in creditors	57,220	54,325
Receivables from related companies	35,327	11,517
Receivables from associates	22,429	41,531
Receivables from security deposits	21,525	41,450
Receivables from affiliated companies	10,954	7,428
Receivables from proportionately consolidated joint ventures	5,543	4,373
Reveivables from real estate sales	-	26,000
Other financial receivables	375,360	490,202
	1,105,613	1,094,697

* The data has been adjusted.

Other receivables from financing include receivables from companies which are held by the KarstadtQuelle Pension Trusts and as such are treated as related companies which amount to 46,503 th. € (previous year: 145,614 th. €).

27 OTHER RECEIVABLES AND OTHER ASSETS

Amounts shown in th. €	30.09.2008	30.09.2007*
Hotel prepayments	143,199	87,696
Other tax receivables	79,775	84,580
Other assets	330,922	308,507
	553,896	480,783

* The data has been adjusted.

Other assets include fixed deposits for securing settlement arrears resulting from partial retirement agreements. These fixed deposits of 11.0 mill. € (previous year: 15.8 mill. €) are subject to a restriction on title by the Group.

28 CASH AND CASH EQUIVALENTS AND SECURITIES

Amounts shown in th. €	30.09.2008	30.09.2007
Checks	846	566
Cash and Bundesbank deposits	103,069	113,065
Deposits at banks	1,034,864	1,002,475
Securities	179,071	389,537
	1,317,850	1,505,643

Deposits at banks include balances under the agency collection at Thomas Cook UK travel agencies as well as balance sheet date related investments at banks.

Current asset securities are recognized at fair value. These are financial assets classified as held for sale. The market value of the securities at the balance sheet date corresponds to the amount recognized in the balance sheet. Foreign currency deposits are recognized at the closing rate.

Deposits at banks include an amount of 313.6 mill. € (previous year: 167.0 mill. €) to which the Arcandor Group only has limited access owing to statutory or contractual conditions. In addition, cash and cash equivalents include joint ventures totaling 38.4 mill. € (previous year: 54.4 mill. €).

29 ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

Amounts shown in th. €	30.09.2008	30.09.2007*
Assets classified as held for sale		
Intangible assets	3,431	27,861
Tangible assets	32,030	129,020
Other financial assets	72,112	512,870
Deferred taxes	752	5,397
Non-current assets	**108,325**	**675,148**
Inventories	6	66,040
Other current assets	232,721	450,291
Current assets	**232,727**	**516,331**
	341,052	1,191,479
Liabilities from assets classified as held for sale		
Provisions for pensions	794	44,759
Deferred taxes	117	16,494
Non-current liabilities	**911**	**61,253**
Current financial liabilities	80,733	12,997
Other liabilities	114,097	493,627
Current liabilities	**194,830**	**506,624**
	195,741	567,877

* The data has been adjusted.

The values for the Neckermann Group, the NeBus Group, the Mode & Preis Group and the MultiBus Group were included in the previous financial year and were disposed of in the financial year. No material book profits or losses resulted from the disposal of the companies. Until deconsolidation, the income statement includes results of minus 38.6 mill. €.

The sale of 51 % of shares in the Neckermann Group resulted in a 49 % stake being recognized. According to contractual regulations, the Arcandor Group does not have any substantial influence on the company as a result of the acquisition. The interest is recognized as a financial instrument “held for trading”. The initial measurement was at the fair value of 147.2 mill. € of Arcandor's remaining share in the net assets. This value corresponds to the value of the Neckermann Group previously recognized under IFRS 5. The subsequent measurement is at amortized cost in line with IAS 39.46(c), as the investment does not have a quoted market price in an active market and it’s fair value cannot be reliably measured.

To the reporting date, assets classified as held for sale includes, in addition to a number of properties (Real Estate segment), the assets and liabilities of KARSTADT QUELLE Information Services GmbH, Frankfurt (Primondo segment) and its subsidiaries. In addition, the assets and liabilities of KarstadtQuelle Bank GmbH and a few insurance investments are included in this item (Service segment). The sales are expected to take place in the coming financial year as part of the reorganization of the non-core segments of the Group.

Impairment has been recognized where the requirements have been satisfied. In the 2007/2008 financial year, impairment of 7.8 mill. € was recognized. In the previous year, impairment of 173.4 mill. € was recognized for the Neckermann Group.

30 EQUITY

The breakdown of equity is shown on page 94.

The outstanding share capital of 574.7 mill. € (previous year: 551.1 mill. €) is divided into 224,507,701 (previous year: 215,272,543) no-par value bearer shares each with a proportionate interest in the share capital of 2.56 € per share. The 5,697,827 shares held by the company (previous year: 5,697,827 shares) have been deducted from the share capital to the value of 14.6 mill. € (previous year: 14.6 mill. €).

The increase in the share capital is attributable to the exercise of the conversion right relating to the convertible bond (9,235,158 shares, Contingent Capital I) to the value of 23.6 mill. €.

Authorized Capital I and II

According to the resolution of the Annual General Meeting on May 8, 2006, the Management Board is authorized, subject to the approval of the Supervisory Board, to increase the share capital of the Company by up to 200.0 mill. € on one or more occasions until May 7, 2011, through the issue of no-par value bearer shares against cash contributions.

The authorizations of 100.0 mill. € are recorded as Authorized Capital I and Authorized Capital II respectively. A capital increase was carried out on September 29, 2008 utilizing Authorized Capital I, which took effect after the balance sheet date.

Contingent Capital I

(Convertible bonds and/or warrant bonds)

The Management Board was authorized to issue registered convertible and/or warrant bonds with a total nominal volume of up to 600 mill. € and a term of not more than 20 years on one or more occasions until June 30, 2005, and to grant conversion rights to the bearers and creditors of convertible bonds and options to the bearers or creditors of warrant bonds relating to new shares of the Company with a proportionate interest in the share capital of up to 50 mill. € in accordance with the terms defined more precisely in the conditions of the convertible and/or warrant bonds.

Accordingly, the Company's share capital was contingently increased by up to 50 mill. €. The purpose of this contingent capital increase is to grant rights to the bearers or creditors of convertible and warrant bonds issued until June 30, 2005 in accordance with the authorization described above.

In December 2004, Arcandor AG, acting via its Dutch subsidiary Karstadt Finance B.V., Hulst/Netherlands, issued a convertible bond guaranteed by Arcandor AG on the Luxembourg Stock Exchange with a nominal volume of 170.0 mill. € (DE000A0DH5H7).

On December 27, 2007, Arcandor AG exercised the option right to discharge the convertible bond. During the financial year, the conversion of the outstanding convertible bonds led to a 23.6 mill. € increase in share capital and a 50.7 mill. € increase in the capital reserve.

The convertible bond yielded nominal interest of 4.5 % and had a duration of five years. During the exercise period, creditors of the convertible bonds were entitled to convert their respective partial bonds, totaling 3,400 bonds each with a nominal value of 50 th. € and representing a proportionate interest in the share capital of Arcandor AG of 49.7 mill. €, into shares of Arcandor AG. The number of shares per bond is 5,707.76 (representing a total of 19,406,392 shares).

The conversion price as specified in conditions of the bond was 8.76 €. However, the conversion price could be adjusted under certain circumstances (e.g. protection against dilution for capital increases from retained earnings, protection against changes in control).

The convertible bond was sub-divided into bond and share option components in accordance with a market price model. This resulted in an 80.38 % proportion for bond components, while option components accounted for 19.62 % of the proceeds from the issue. Here, transaction costs of 3.7 mill. € were taken into account.

Contingent Capital II

(Incentive Stock Option Plan)

The Annual General Meeting on July 12, 2001 resolved the creation of Contingent Capital II.

The Management Board is authorized, subject to the approval of the Supervisory Board, to increase the share capital of the Company through the issue of up to 6,380,000 new no-par value bearer shares to executives of the Company with shareholders' subscription rights disapplied.

Contingent Capital IV and V

The Annual General Meeting of Arcandor AG on May 10, 2007 authorized the Management Board to issue convertible and/or warrant bonds either with shareholders' subscription rights or with such subscription rights disapplied.

In both cases, the Management Board is authorized, subject to the approval of the Supervisory Board, to issue registered convertible and/or warrant bonds with a total nominal volume of up to 900 mill. € and a term of not more than 20 years on one or more occasions until May 9, 2012, and to grant conversion rights to the bearers and creditors of convertible bonds and options to the bearers or creditors of warrant bonds relating to new no-par value bearer shares of the Company with a proportionate interest in the share capital of up to 60 mill. € in accordance with the terms defined more precisely in the conditions of the convertible and/or warrant bonds.

In the first case, the Management Board is authorized, subject to the approval of the Supervisory Board, to disapply shareholders' subscription rights in relation to the issue of partial bonds meeting certain conditions, providing that these bonds are issued against cash contributions and the Management Board is satisfied, based on the results of the required examination, that the issuing price of the partial bonds is not significantly lower than their theoretical market value calculated in accordance with recognized investment techniques.

The Annual General Meeting of Arcandor AG on May 10, 2007 resolved the creation of Contingent Capital IV and Contingent Capital V. In both cases, the share capital can be contingently increased by up to 60 mill. € by issuing up to 23,437,500 new bearer shares with a pro rata amount of share capital of 2.56 €. The purpose of this contingent capital increase is to grant rights to the bearers or creditors of convertible and warrant bonds issued up until May 9, 2012 by Arcandor AG or a direct or indirect subsidiary. The contingent capital increase will only be implemented to the extent that these rights are exercised.

Authorization to acquire Treasury shares

The Annual General Meeting on July 11, 2002 authorized the Management Board to acquire Treasury shares for the purposes of launching the Company's shares on foreign stock exchanges on which they had not previously been admitted to trading, or for offering shares of the Company to third parties as consideration for mergers or the acquisition of companies or equity interests in these companies.

The Management Board is also authorized to acquire Treasury shares to be subsequently offered to executives of the Company under the terms of the Incentive Stock Option Plan in order to service the resulting subscription rights.

In addition, the Annual General Meeting on May 4, 2004 resolved to authorize the Management Board to use Treasury shares to service conversion and/or subscription rights (see Contingent Capital I above).

This authorization is limited to shares with a value of up to 10 % of the Company's share capital on July 11, 2002, which totaled 301,459,904 €. This represents 11,775,777 no-par value shares. Shareholders' subscription rights for Treasury shares are disapplied to the extent that such shares are used in accordance with the authorizations listed above.

The Company bought back a total of 11,424,883 shares. The number of Treasury shares held by the Company was reduced to 5,697,827 as a result of the exercise of subscription rights under the Incentive Stock Option Plan in 2006 and in the course of the acquisition of HSE Home Shopping Europe GmbH & Co. KG in the previous year. This represents 2.5 % of the Company's current share capital.

On April 23, 2008, the Annual General Meeting authorized the Management Board up to October 22, 2009, to acquire own shares at a proportionate amount of up to ten percent of the present current share capital or, if less, at the amount of the current authorization of the share capital at the time of exercise for any permitted purpose. The acquisition may take place via the stock exchange, on the basis of a public purchase offering to all shareholders or on the basis of a public invitation to all shareholders to making a selling offer.

The Management Board was also authorized to deploy the own shares acquired on the basis of the above authorization, in some cases with the approval of the Supervisory Board, for various purposes. This relates particularly to the sale of shares, the acquisition of companies and servicing warrant and/or convertible bonds. On this item of the agenda, the Management Board provided a written report on the exclusion of subscription rights.

Capital contributions to carry out the approved capital increase

On September 29, 2008, utilizing the Authorized Capital I, a capital increase of 59.9 mill. € was carried out by issuing 23,020,552 new no-par value bearer shares against cash contributions. The new shares will be issued at their nominal value of 2.56 € per share plus a premium of 0.04 € to give a total value of 2.60 € per share.

At the balance sheet date, the capital increase had not yet been entered into the Commercial Register but had already been paid in full. At the balance sheet date, the amount of 59.9 mill. € has therefore been recognized under the item "Investments made to carry out the approved capital increase". Entry into the Commercial Register took place on October 23, 2008.

Capital management

Company law provisions form the framework for capital management in the Arcandor Group. In cases in which regulatory or contractual conditions must be complied with, equity is also managed in line with the principles stipulated in these conditions.

In cases where there are no special regulations, the equity to be managed consists of the equity carried on the balance sheet. Where necessary, equity is adjusted to the respective regulatory or contractual requirements.

Announcements pursuant to §§ 21 ff. of the German Securities Trading Act (WpHG)

(for the period from October 1, 2007 to Dezember 2, 2008)

Notification * from	Date of announcement	Announced threshold	Announced voting rights	Voting rights assigned to
Wellington Management Company, LLP, USA	17.10.2007	Exceeded 5 % at 03.10.2007	5.12 %	Wellington Management Company, LLP, USA (section 22 (1) sent. 1 no. 6 WpHG)
Wellington Management Company, LLP, USA	14.12.2007	Drop below 5 % at 11.12.2007	4.91 %	Wellington Management Company, LLP, USA (section 22 (1) sent. 1 no. 6 WpHG)
Morgan Stanley, USA	28.12.2007 31.07.2008[2)]	Exceeded 3 % at 14.12.2007	4.52 %	Morgan Stanley & Co. Incorporated, USA; Morgan Stanley, USA (section 22 (1) sent. 1 no.1 WpHG)
Wellington Management Company, LLP, USA	21.02.2008	Exceeded 5 % at 18.02.2008	5.06 %	Wellington Management Company, LLP, USA (section 22 (1) sent. 1 no. 6 WpHG)
Julius Bär Holding AG, Switzerland	14.03.2008	Drop below 5 % at 11.03.2008	4.93 %	Julius Bär Holding AG, Switzerland (section 22 (1) sent. 1 no. 1 and no. 6 WpHG in connection with section 22 (1) sent. 2 WpHG)
Julius Bär Holding AG, Switzerland	28.04.2008[1)]	Drop below 5 % at 11.03.2008	4.93 %	Julius Bär Holding AG, Switzerland (section 22 (1) sent. 1 no. 6 WpHG in connection with section 22 (1) sent. 2 WpHG)
Morgan Stanley, USA	07.05.2008 31.07.2008[2)]	Drop below 3 % at 01.05.2008	1.17 %	Morgan Stanley & Co. Incorporated, USA; Morgan Stanley, USA (section 22 (1) sent. 1 no.1 WpHG)
Odey Asset Management LLP, Great Britain	07.07.2008	Exceeded 3 % at 02.07.2008	3.23 %	Odey Asset Management LLP, UK (section 22 (1) sent. 1 no. 6 WpHG)
Julius Bär Holding AG, Switzerland	23.07.2008	Exceeded 5 % at 16.07.2008	5.04 %	Julius Bär Holding AG, Switzerland (section 22 (1) sent. 1 no. 6 WpHG in connection with section 22 (1) sent. 2 WpHG)
Julius Bär Holding AG, Switzerland	12.08.2008	Drop below 5 % at 07.08.2008	4.84 %	Julius Bär Holding AG, Switzerland (section 22 (1) sent. 1 no. 6 WpHG in connection with section 22 (1) sent. 2 WpHG)
Wellington Management Company, LLP, USA	29.09.2008	Drop below 5 % at 26.09.2008	4.20 %	Wellington Management Company, LLP, USA (section 22 (1) sent. 1 no. 6 WpHG)
Sal. Oppenheim jr. & Cie. S.C.A., Luxemburg	01.10.2008	Exceeded 3 %, 5 %, 10 % and 15 % at 30.09.2008	15.95 %	Sal. Oppenheim jr. & Cie. KGaA, Cologne; Sal. Oppenheim jr. & Cie. S.C.A., Luxemburg (section 22 (1) sent. 1 no.1 WpHG)
Julius Bär Holding AG, Switzerland	03.10.2008	Exceeded 5 % at 30.09.2008	5.02 %	Julius Bär Holding AG, Switzerland (section 22 (1) sent. 1 no. 6 WpHG in connection with section 22 (1) sent. 2 WpHG)
GAM Holding AG, Switzerland	03.10.2008	Exceeded 5 % at 30.09.2008	5.01 %	GAM Holding AG, Switzerland (section 22 (1) sent. 1 no. 6 WpHG in connection with section 22 (1) sent. 2 WpHG)
GAM (UK) Ltd., Great Britain	03.10.2008	Exceeded 5 % at 30.09.2008	5.01 %	GAM (UK) Ltd., UK (section 22 (1) sent. 1 no. 6 WpHG in connection with section 22 (1) sent. 2 WpHG)
Madeleine Schickedanz, Germany	08.10.2008	Drop below 50 % at 28.09.2008	34.55 %	Madeleine Schickedanz, Germany (13.95 % own voting rights; 20.60 % attributable acc. to section 22 (2) WpHG (thereof 14.87 % also attributable acc. to section 22 (1) sent. 1 no. 1 WpHG))
Madeleine Schickedanz Vermögensverwaltungs GmbH & Co. KG, Germany	08.10.2008	Drop below 50 % at 28.09.2008	34.55 %	Madeleine Schickedanz Vermögensverwaltungs GmbH & Co. KG, Germany (14.87 % own voting rights; 19.68 % attributable acc. to section 22 (2) WpHG)
Madeleine Schickedanz Vermögensverwaltungs Beteiligungs GmbH, Germany	08.10.2008	Drop below 50 % at 28.09.2008	34.55 %	Madeleine Schickedanz Vermögensverwaltungs Beteiligungs GmbH, Germany (14.87 % attributable acc. to section 22 (1) sent. 1 no. 1 WpHG; 19.68 % attributable acc. to section 22 (2) WpHG)
Leo Herl, Germany	08.10.2008	Drop below 50 % at 28.09.2008	34.55 %	Leo Herl, Germany (0.001 % own voting rights; 34.55 % attributable acc. to section 22 (2) WpHG)
Grisfonta AG, Switzerland	08.10.2008	Drop below 50 % at 28.09.2008	34.55 %	Grisfonta AG, Switzerland (0.00 % own voting rights; 34.55 % attributable acc. to section 22 (2) WpHG)
Martin Dedi, Germany	08.10.2008	Drop below 50 % at 28.09.2008	34.55 %	Martin Dedi, Germany (28.82 % attributable acc. to section 22 (2) WpHG; 5.73 % attributable acc. to section 22 (1) sent. 1 no. 1 WpHG)
Martin Dedi Vermögensverwaltungs GmbH & Co. KG, Germany	08.10.2008	Drop below 50 % at 28.09.2008	34.55 %	Martin Dedi Vermögensverwaltungs GmbH & Co. KG, Germany (5.73 % own voting rights; 28.82 % attributable acc. to section 22 (2) WpHG)
Martin Dedi Vermögensverwaltungs Beteiligungs GmbH, Germany	08.10.2008	Drop below 50 % at 28.09.2008	34.55 %	Martin Dedi Vermögensverwaltungs Beteiligungs GmbH, Germany (5.73 % attributable acc. to section 22 (1) sent. 1 no. 1 WpHG; 28.82 % attributable acc. to section 22 (2) WpHG)
Julius Bär Holding AG, Switzerland	21.10.2008	Drop below 5 % at 15.10.2008	4.971 %	Julius Bär Holding AG, Switzerland (section 22 (1) sent. 1 no. 6 WpHG in connection with section 22 (1) sent. 2 WpHG)

Notification * from	Date of announcement	Announced threshold	Announced voting rights	Voting rights assigned to
GAM Holding AG, Switzerland	23.10.2008	Drop below 5 % at 15.10.2008	4.97 %	GAM Holding AG, Switzerland (section 22 (1) sent. 1 no. 6 WpHG in connection with section 22 (1) sent. 2 WpHG)
GAM (UK) Ltd., Great Britain	23.10.2008	Drop below 5 % at 15.10.2008	4.97 %	GAM (UK) Ltd., UK (section 22 (1) sent. 1 no. 6 WpHG in connection with section 22 (1) sent. 2 WpHG)
Sal. Oppenheim jr. & Cie. S.C.A., Luxemburg	23.10.2008	Exceeded 20 % at 17.10.2008	21.45 %	Sal. Oppenheim jr. & Cie. KGaA, Cologne; Sal. Oppenheim jr. & Cie. S.C.A., Luxemburg (section 22 (1) sent. 1 no.1 WpHG)
Sal. Oppenheim jr. & Cie. S.C.A., Luxemburg	23.10.2008	Exceeded 25 % at 23.10.2008	28.59 %	Sal. Oppenheim jr. & Cie. KGaA, Cologne; Sal. Oppenheim jr. & Cie. S.C.A., Luxemburg (section 22 (1) sent. 1 no.1 WpHG)
Madeleine Schickedanz, Germany	24.10.2008	Drop below 30 % at 17.10.2008	29.05 %	Madeleine Schickedanz, Germany (5.13 % own voting rights; 23.91 % attributable acc. to section 22 (2) WpHG (thereof 18.18 % also attributable acc. to section 22 (1) sent. 1 no. 1 WpHG))
Madeleine Schickedanz Vermögensverwaltungs GmbH & Co. KG, Germany	24.10.2008	Drop below 30 % at 17.10.2008	29.05 %	Madeleine Schickedanz Vermögensverwaltungs GmbH & Co. KG, Germany (18.18 % own voting rights; 10.87 % attributable acc. to section 22 (2) WpHG)
Madeleine Schickedanz Vermögensverwaltungs Beteiligungs GmbH, Germany	24.10.2008	Drop below 30 % at 17.10.2008	29.05 %	Madeleine Schickedanz Vermögensverwaltungs Beteiligungs GmbH, Germany (18.18 % attributable acc. to section 22 (1) sent. 1 no. 1 WpHG; 10.87 % attributable acc. to section 22 (2) WpHG)
Leo Herl, Germany	24.10.2008	Drop below 30 % at 17.10.2008	29.05 %	Leo Herl, Germany (0.001 % own voting rights; 29.05 % attributable acc. to section 22 (2) WpHG)
Grisfonta AG, Switzerland	24.10.2008	Drop below 30 % at 17.10.2008	29.05 %	Grisfonta AG, Switzerland (29.05 % attributable acc. section to 22 (2) WpHG)
Martin Dedi, Germany	24.10.2008	Drop below 30 % at 17.10.2008	29.05 %	Martin Dedi, Germany (23.32 % attributable acc. to section 22 (2) WpHG; 5.73 % attributable acc. to section 22 (1) sent. 1 no. 1 WpHG)
Martin Dedi Vermögensverwaltungs GmbH & Co. KG, Germany	24.10.2008	Drop below 30 % at 17.10.2008	29.05 %	Martin Dedi Vermögensverwaltungs GmbH & Co. KG, Germany (5.73 % own voting rights; 23.32 % attributable acc. to section 22 (2) WpHG)
Martin Dedi Vermögensverwaltungs Beteiligungs GmbH, Germany	24.10.2008	Drop below 30 % at 17.10.2008	29.05 %	Martin Dedi Vermögensverwaltungs Beteiligungs GmbH, Germany (5.73 % attributable acc. to section 22 (1) sent. 1 no. 1 WpHG; 23.32 % attributable acc. to section 22 (2) WpHG)
Wellington Management Company, LLP, USA	01.12.2008	Drop below 3 % at 30.09.2008	2.89 %[3]	Wellington Management Company, LLP, USA (section 22 (1) sent. 1 no. 6 WpHG)

* The announcements were published in accordance with § 26 WpHG.
[1] Changed announcements.
[2] Correction of Arcandor AG publication.
[3] As at September 30, 2008.

During the 2005 financial year, the following notice was issued under Sections 21 ff. WpHG (German Securities Trading Act): Mrs. **Madeleine Schickedanz, Fürth, Madeleine Schickedanz Vermögensverwaltungs GmbH & Co. KG, Fürth**, Mr. **Leo Herl, Fürth, Grisfonta AG, Landquart/Schweiz, Martin Dedi Vermögensverwaltungs GmbH & Co. KG, Fürth**, and Mr. **Martin Dedi, Freudenstadt**, announced that as of May 23, 2005, their shares in our company, including assignable votes in accordance with Section 22 (2) WpHG, exceeded the threshold of 50 % and now totaled 50.0015 %. As at September 30, 2008, the voting rights attributable to Arcandor AG amounted to 34.55 %. No other notifications were received in the year under review or the previous year.

Additional paid-in capital

The capital reserve increased by 50.6 mill. € as a result of the exercise of options to the convertible bonds (previous year: 45.5 mill. €).

In the 2007/2008 financial year, the capital reserve was reduced by 558.5 mill. € to offset the tax losses carried forward of Arcandor AG.

Under IAS 39, all derivative financial instruments are allocated to the category “financial assets and liabilities held for trading”. Changes in value must be reported in profit or loss unless the changes result for derivatives which are part of a hedging transaction.

Equity treatment of profits/losses from derivative financial instruments

Amounts shown in th. €	Before tax	Tax effect	Net	Previous year
Unrealized profits/losses from derivative financial instruments				
As at 01.10.2007/01.01.2007	-37,180	7,735	-29,445	-19,200
Reversal	76,445	-18,575	57,870	12,054
Appropriation	756	-295	461	-5,133
Changes in consolidated companies	-	-	-	-17,166
As at 30.09.2008/30.09.2007	**40,021**	**-11,135**	**28,886**	**-29,445**

Profit/loss from non-derivative financial instruments

Amounts shown in th. €	Before tax	Tax effect	Net
Profit/loss from non-derivative financial instruments			
As at 01.10.2007	334,559	-52,489	282,070
Reversal	-333,192	52,184	-281,008
Appropriation	-756	296	-460
Changes in consolidated companies	-607	9	-598
As at 30.09.2008	**4**	**-**	**4**

A distinction must be made between fair value hedges and cash flow hedges in terms of recognition and measurement. Changes in the value of cash flow hedging transactions are recognized in equity if they are related to the effective part of a hedge accounting transaction. Non-effective parts of hedge accounting are recognized in profit or loss.

Non-derivative financial instruments contributed minus 281,795 th. € (previous year: 282,070 th. €) to changes in the value of equity. This includes deferred taxes of 52,489 th. € (previous year: 52,569 th. €). These changes were mainly due to the disposal of Highstreet GbR which was measured at fair value in the previous years.

Dividend proposal

There will be no dividend payments by Arcandor AG for the 2007/2008 financial year.

Minority interests

Minority interests relate mainly to the Thomas Cook Group.

31 FINANCIAL LIABILITIES

	Total		Remaining term of up to 1 year		Remaining term of 1 to 5 years		Remaining term of more than 5 years	
Amounts shown in th. €	**30.09.2008**	30.09.2007	**30.09.2008**	30.09.2007	**30.09.2008**	30.09.2007	**30.09.2008**	30.09.2007
Convertible bonds	233,631	72,073	-	-	233,631	72,073	-	-
Liabilities to banks	1,806,302	1,105,138	1,293,585	906,127	490,786	168,612	21,931	30,399
Payable to affiliated companies	42,692	28,576	31,144	19,267	11,375	9,129	173	180
Lease liabilities	1,258,960	814,294	259,749	121,386	415,648	509,713	583,563	183,195
Other financial liabilities	173,177	447,083	26,467	229,384	72,512	158,317	74,198	59,382
	3,514,762	**2,467,164**	**1,610,945**	**1,276,164**	**1,223,952**	**917,844**	**679,865**	**273,156**

Contractually agreed payments of derivative and non-derivative financial liabilities

Amounts shown in th. €	30.09.2008	30.09.2007
Book values financial liabilities	**8,360,826**	**6,301,832**
Cash flows/maturities		
Up to 1 month	3,137,796	3,511,681
Between 1 to 2 month	3,059,891	467,148
Between 1 to 5 years	1,754,599	701,944
Over 5 years	706,384	1,986,983

The cash flows are undiscounted cash flows at the respective due dates. In addition to the financial liabilities described in note 31, financial liabilities also include trade payables. In addition, they also include non-derivative financial liabilities and derivative financial liabilities not reported under financial liabilities.

In July 2008, Arcandor AG issued an exchangeable bond with conversion rights in shares of Thomas Cook Group plc with a nominal value of 275 mill. € on the stock exchange in Frankfurt and Stuttgart (OTC market, DE000A0N0N07).

The convertible bond yields nominal interest of 8.875% and has a duration of five years. On July 11, 2013, the bonds will be paid back at their nominal value plus interest incurred, provided they have not previously been paid back, converted or bought back. During the exercise period, creditors of the convertible bond are entitled to convert their partial bonds, totaling 2,750 bonds each with a nominal value of 100 th. €, into shares of Thomas Cook Group plc. The total number of underlying shares is 76,702,454.

The exercise period began on August 21, 2008 and ends on the 15th trading day before the bonds mature. Arcandor AG retains the right to exercise conversion rights by paying a monetary amount. In the period up to September 30, 2008, no conversion took place.

The convertible bond is a compound financial instrument. At recognition, the nominal value of 275 mill. € was divided into a nominal part totaling 236.5 mill. € and a derivative part totaling 38.5 mill. €. At the balance sheet date, the value of the derivative was 34.9 mill. € and was calculated using an option pricing model. Expected volatility was set at 42.48 % and a risk-free interest rate was set at 5.793 %.

On June 12, 2007, a syndicated credit facility of up to 1.50 bill. € with a term of several years, made up of five tranches, was concluded to secure the establishment of intra-year working capital, to provide guarantee and letter of credit lines and to finance the acquisition of Thomas Cook AG. On May 15, 2008, the credit line was extended by a sixth tranche. On September 29, 2008, a further credit line of up to 155.0 mill. €, made up of two tranches, was concluded.

As at September 30, 2008, the 1.50 bill. € and the 155.0 mill. € credit lines were made up of the following tranches:

Tranche	Volume in mill. €	Interest rate in % above EURIBOR/LIBOR	Drawn amounts as at 30.09.2008 in mill. €
Line 1.50 bill. €			
A	450	1.90	299[1]
B	200	1.90	200
E	66	5.25	66
F	175	6.00	175
Line 155 mill. €			
New A	75	6.00	75
New B	80	6.00	-

[1] Additionally used for bank guarantees and letter of credits also used by Karstadt Warenhaus.

Shares in affiliated companies and significant bank accounts as well as receivables of Arcandor AG from certain subsidiaries and trademark rights were pledged as collateral in total of 3.51 bill. € (previous year: 3.6 bill. €).

Tranches A and B have a term of up to June 12, 2009, and include a prolongation option of a year each, for which the conditions must be negotiated with the respective banks. During the financial year, tranches C and D were completely repaid. Tranche E has a term of up to April 30, 2009, and tranche F until September 30, 2009. The new tranches “New A” and “New B” run until September 30, 2009 and February 26, 2009 respectively.

On 26 August 2008, Quelle GmbH agreed a short-term credit line of 10 mill. €. Shares in affiliated companies were pledged as collateral. The fully utilized facility is due on December 31, 2008. In addition, Arcandor AG took out a loan of 5 mill. €, which is secured with trademark rights. The loan is due on November 28, 2008.

The loans secured totaling 79.2 mill. € by mortgages carry annual interest rates of between 4.85 % and 5.73 % as at the balance sheet date. Interest-bearing bank loans and overdrafts are recognized at the amount paid less directly attributable issuing costs. Borrowing costs including premium costs which become payable on repayment or redemption are reported in recognition of profit or loss appropriate to the period.

In addition to the collateral for the credit facilities, VALOVIS Bank AG has property mortgages of 75.4 mill. €. In addition, Arcandor AG has assumed a guarantee for VALOVIS Bank AG (previously KARSTADT Hypothekenbank AG), Essen, for loans by Karstadt Finance B.V., Hulst/Netherlands, measured at 72 mill. € as at the balance sheet date.

Regular commission, fees for funds not utilized, insurance fees and commission amounting to 4,160 th. € were paid for providing the loans to Arcandor AG. The amounts to be paid are each calculated as a percentage (0.125 % to 0.75 %) as well as in relation to facilities which were not utilized. In addition, one-time transaction costs of 11,842 th. € were paid and spread over the term of the facilities.

On May 23, 2008, Thomas Cook concluded a new credit facility of 1.80 bill. €, of which a facility of 200 mill. € is reserved for guarantee performance in connection with possible customer claims (“bonding”). The loan with the duration of three years replaces the existing facility and alongside the bonding facility is divided into three annually revolving facilities. Of this total amount, 320 mill. € is available only in the case of a disposal of Condor, while the remainder is available for general purposes, acquisitions and the share buyback program. As at September 30, 2008, 889.3 mill. € of the credit facility was utilized. In addition, as at the balance sheet date, there were unutilized bond facilities and committed warranties totaling 706.8 mill. €.

The liabilities of Thomas Cook to banks are largely for the financing of company aircraft, administrative buildings, and hotel and club complexes. For the reporting period ending on September 30, 2008 (11 months), there was an average interest charge of 6.6 %. Borrowing of 148.4 mill. € had a fixed weighted average interest rate of 6.5 %. The other amounts have a variable interest rate at an average benchmark interest rate of 5.4 %.

In connection with this borrowing, Thomas Cook has issued aircraft mortgages and property mortgages or similar collateral of 144.0 mill. €.

Granting credits are is subject to various conditions. In addition to general requirements, financial conditions specify that consolidated key ratios for each quarterly reporting date may not fall below or exceed a stipulated level.

There were no payment defaults on financial liabilities in the reporting period.

32 OTHER LIABILITIES

		Remaining terms		
Amounts shown in th. €	**Total 30.09.2008**	up to 1 year	1 to 5 years	more than 5 years
Payables to affiliated companies	526	526	-	-
Previous year	5,243	5,243	-	-
Payable to proportionately consolidated companies	4,006	4,006	-	-
Previous year	4,711	4,711	-	-
Payable to associates	16,457	16,457	-	-
Previous year	38,403	38,403	-	-
Payable to companies in which investments are held	3,468	3,468	-	-
Previous year	3,334	3,334	-	-
Advance payments received	1,317,662	1,316,369	1,285	8
Previous year	1,081,711	1,080,820	891	-
Derivative financial instruments	338,510	219,404	119,106	-
Previous year	207,024	174,402	32,622	-
Liabilities under social security	14,784	14,775	9	-
Previous year	20,370	20,370	-	-
Other liabilities related to staff	239,148	235,916	3,232	-
Previous year	218,369	218,074	263	32
Deferred income	148,540	74,193	47,896	26,451
Previous year	253,899	153,680	72,629	27,590
Liabilities from withholdings	275,606	215,616	59,211	779
Previous year	329,021	245,774	82,128	1,119
Other liabilities	889,353	728,834	152,984	7,535
Previous year	1,151,948	352,047	752,827	47,074
	3,248,060	**2,829,564**	**383,723**	**34,773**
Previous year	**3,314,033**	**2,296,858**	**941,360**	**75,815**
Tax on earnings	184,349	93,339	91,010	-
Previous year *	199,511	118,210	81,301	-
As at 30.09.2008	**3,432,409**	**2,922,903**	**474,733**	**34,773**
Previous year *	**3,513,544**	**2,415,068**	**1,022,661**	**75,815**

* The data has been adjusted.

The carrying amounts of recognized financial liabilities are their market values.

In the previous year, liabilities arising from long-term real estate development projects recognized by the percentage-of-completion method were also reported under other liabilities. These project developments were fully settled in September 2008.

Other liabilities include typical silent partnerships of 444.2 mill. € (previous year: 490.0 mill. €). The silent partnerships provide for interest based on the EBITDA of the Primondo Specialty Group subgroup as calculated under IFRS. The minimum and maximum interest is 5.0% and 8.0% respectively on deposits.

The shares in Primondo Specialty Group GmbH were pledged to pension trusts to secure the silent partnerships.

Prepaid expenses
During the past financial year, as in previous years, the Group entered into outsourcing agreements from which up-front payments resulted. These were allocated to deferred income and are recognized on a straight-line basis in income over the term of the agreements. The carrying amount of this deferred income is 75.8 mill. € (previous year: 102.2 mill. €).

33 PENSION PROVISIONS

Provisions are recognized for obligations arising from future pension claims and ongoing payments to active and former employees and surviving dependents.

Pension provisions are accounted for in accordance with IAS 19. Future obligations are measured using actuarial methods (projected unit credit method) and estimations of the future development of relevant influencing factors, such as salary and pension trends. The 10 % corridor regulation is used to measure pension provisions. Actuarial gains and losses are not recognized in profit or loss unless they exceed 10 % of the higher of defined benefit obligation or market value of the plan assets. The amount by which the corridor is exceeded is amortized over the average remaining service period of active employees and recognized in profit or loss.

Corporate pension schemes in the Arcandor Group are mainly defined benefit plans and are generally based on employees' duration of employment and remuneration.

There are also the following defined benefit and defined contribution schemes:

- A defined benefit pension system for senior staff members in the form of deferred compensation.
- A defined contribution system through a pension fund.
- Defined benefit systems for various companies of the Thomas Cook Group subgroup, which are managed by third-party pension funds. The respective companies pay contributions to these pension funds. If there is not sufficient cover for the fund assets on the reporting date, an obligation is reported under pension obligations.
- The general pension obligation of the Versorgungsanstalt des Bundes und der Länder (VBL, German Federal and State Government Employees Retirement Fund) is being maintained as a company pension obligation for employees who joined companies of the Condor Group before 1995. Flight staff members also receive transitional benefits for the period between termination of flight crew contracts and the commencement of statutory/company retirement pension payments. In either case defined benefits depend on the final salary received prior to retirement (final salary schemes).

Individual defined benefit plans on an individual contractual basis were agreed for active members of the Management Board. Please also see the information in the remuneration report on page 63. Information on former members of the Management Board and their surviving dependents can be found on page 147.

In financial year 2002, the Arcandor Group formed an internal pension fund in line with the contractual trust arrangement (CTA) concept to finance its pension obligations. The assets that qualified as plan assets as defined by IAS 19 were transferred in trust to two pension funds by the Arcandor Group as the trustor. The pension funds are managed by an independent third party.

In the two-tier trust model, II. KarstadtQuelle Pension Trust e. V. acts as the security trustor and II. KarstadtQuelle Mitarbeitertrust is the administrative trustor. In the year under review, I. KarstadtQuelle Pension Trust e. V. was merged with II. KarstadtQuelle Pension Trust e. V. and I. KarstadtQuelle Mitarbeitertrust was merged with II. KarstadtQuelle Mitarbeitertrust.

In 2008, material parts of the assets which until now had been assigned to KarstadtQuelle Pension Trust e.V., Essen as sole trust assets as part of the Contractual Trust Arrangement (CTA) program were bundled into an asset pool for administrative reasons. In addition, other employees, including those already eligible for a pension, were also taken up into the CTA. As a result, in the reporting period, the share of commitments financed by funds against commitments financed by provisions increased.

Prof. Klaus Heubeck's 2005 G mortality tables are applied as a biometric calculation basis for the German companies. The probability of fluctuation was estimated on an age and gender-related basis.

In addition to assumptions of life expectancy, the following accounting parameters were applied for companies in the Group: As a result of the allocation of commitments across different countries, different parameters were set in some cases for the individual assessments.

Accounting parameters

Amounts shown in th. €	**30.09.2008**	30.09.2007
Interest rate for calculation purposes	5.50 – 6.35	3.75 – 5.75
Salary increase trend	2.00 – 4.33	1.00 – 4.50
Pension increase trend	1.75 – 3.17	0.25 – 5.00
Anticipated return in plan assets	5.10 – 6.98	4.00 – 7.10
Average fluctuation	5.00	5.00

Expected income from plan assets is essentially determined on the basis of current multi-year forecasts for the participating interests. If assets are invested in securities, the anticipated income is calculated on the basis of current long-term investment income from loan issues. In this case, adequate risk surcharges are taken into account on the basis of historical capital market yields and current capital market prospects taking into account the structure of the plan assets.

The cost of pension claims acquired in the financial year and actuarial losses recognized in income in connection with plan assets are reported under staff costs. Interest and expected income from plan assets are recognized in financial results.

The following table provides an overview of the performance of the benefit schemes:

Development of benefit schemes

Amounts shown in th. €	30.09.2008	30.09.2007	31.12.2006	31.12.2005
Present value of performance-related defined benefit obligations (DBO)	2,960,256	3,370,589	3,068,917	2,990,061
Fair value of plan assets	2,121,954	2,393,885	1,845,778	1,772,680
Deficit of the plan	838,302	976,704	1,223,139	1,217,381

In the financial year, experience adjustments of plan liabilities in the Thomas Cook segment amounted to plus 3.4 mill. € (previous year: plus 7.7 mill. €) and minus 47.9 mill. € in the rest of the Group (previous year: minus 30.0 mill. €). These adjustments to plan assets on the balance sheet date amounted to minus 147.5 mill. € in the Thomas Cook segment (previous year: plus 14.9 mill. €) and minus 53.4 mill. € in the rest of the Group (previous year: minus 8.5 mill. €).

Pension obligations at the Group in the financial year performed as follows:

Development of the assets transferred to the pension fund

Amounts shown in th. €	Obligations financed from funds	Obligations financed from provisions	30.09.2008	30.09.2007
As at 01.10./01.01.	2,354,139	1,016,450	3,370,589	3,068,917
Cost of pension claims acquired in the financial year	19,827	10,425	30,252	24,540
Borrowing costs	114,002	53,293	167,295	111,910
Pension payments	-121,594	-54,485	-176,079	-124,327
Actuarial gains/losses	-197,567	-33,600	-231,167	-303,732
Beneficiary contributions from the benefit schemes	6,557	470	7,027	2,706
Currency alignment	-111,943	-369	-112,312	-10,867
Past service cost	-	-380	-380	147
Reclassification *	632,901	-632,901	-	-
Changes in scope of consolidation and other changes	-73,916	-21,053	-94,969	601,295
As at 30.09.	**2,622,406**	**337,850**	**2,960,256**	**3,370,589**

* Extension of benefits covered by the CTA.

The **amount recognized for pension obligations on the balance sheet date** is determined as follows:

Amount recognized for pension obligations on the balance sheet

Amounts shown in th. €	Obligations financed from funds	Obligations financed from provisions	30.09.2008	30.09.2007
Present value of defined pension obligations (DBO)	2,622,406	337,850	2,960,256	3,370,589
Unrecognized actuarial gains/losses	95,607	42,474	138,081	92,845
Unrecognized costs for amendments to claims from previous years	1,203	-	1,203	-233
Market value of plan assets	-2,121,954	-	-2,121,954	-2,393,885
	597,262	**380,324**	**977,586**	**1,069,316**

Pension costs for the Group in the financial year comprise the following components:

Pension costs

Amounts shown in th. €	Obligations financed from funds	Obligations financed from provisions	30.09.2008	30.09.2007
Cost of pension claims acquired in the financial year	19,827	10,425	30,252	24,540
Borrowing costs	114,002	53,293	167,295	111,910
Anticipated returns on plan assets	-123,979	-	-123,979	-60,370
Actuarial gains/losses reported in recognition of profit or loss	-2,414	-146	-2,560	7,898
Past service cost	-	-380	-380	216
Changes in scope of consolidation and other changes	-	-1,645	-1,645	22,672
	7,436	**61,547**	**68,983**	**106,866**

Assets transferred to the pension fund performed as follows:

Development of the assets transferred to the pension fund *

Amounts shown in th. €	30.09.2008	30.09.2007
Fair value of assets		
As at 01.10./01.01.	2,377,474	1,904,283
Anticipated return on assets	123,979	61,065
Actuarial gains/losses	-192,472	16,409
Currency adjustments	-109,204	-13,826
Contributions paid by the employer	42,431	28,289
Beneficiary contributions from the benefit schemes	6,557	2,706
Pensions paid	-121,594	-79,815
Changes in scope of consolidation and other changes	-5,217	458,363
As at 30.09.	**2,121,954**	**2,377,474**

* Without IFRS 5.

Actual income from plan assets is calculated as follows:

Actual income from plan assets *

Amounts shown in th. €	30.09.2008	30.09.2007
Anticipated return on assets	123,979	61,065
Actuarial gains/losses	-192,472	16,409
Changes in scope of consolidation and other changes	-	37,681
	-68,493	**115,155**

* Without IFRS 5.

Expected contributions of 43.5 mill. € (previous year: 1.4 mill. €) were added to plans for the 2008/2009 financial year.

The following is an overview of the **composition of plan assets** as at the balance sheet date:

Overwiev of the composition of plan assets *

Amounts shown in th. €	30.09.2008	30.09.2007
Real estate incl. shares in real estate companies	393,468	812,849
Participating interests	628,687	268,200
Silent partnerships	471,587	497,642
Banking investments	247,777	522,438
Fund investments	369,884	150,298
Other	10,551	126,047
	2,121,954	**2,377,474**

* Without IFRS 5.

The Group utilizes most of the real estate itself. Rent is paid on the basis of prevailing market rates.

In particular, participating interests include the interests in KarstadtQuelle Vermögensbeteiligungsgesellschaft mbH, VALOVIS Bank AG and KARSTADT QUELLE Vermögensverwaltung GmbH.

As at June 11, 2007, two typical silent partnerships between KarstadtQuelle Mitarbeitertrust e. V. and II. KarstadtQuelle Mitarbeitertrust e. V. on the one hand and Primondo Specialty Group GmbH on the other hand were agreed with a total original value of 500 mill. €.

Other assets mainly include receivables from Group companies resulting from profit entitlements and investment earnings and imputable taxes.

34 OTHER NON-CURRENT PROVISIONS

Amounts shown in th. €	30.09.2008	30.09.2007
Other tax provisions (other taxes)	57,520	53,388
Other non-current provisions	459,448	420,746
	516,968	**474,134**

During the 2007/2008 financial year, other tax provisions of 12,796 th. € were utilized. Reversals and appropriations totaled 3,000 th. € and 19,749 th. € respectively. There were also foreign currency differences of 179 th. €.

Movements of other non-current provisions

Amounts shown in th. €	Staff	Guarantees/ warranties	Contingent losses from pending transactions	Reorganisation	Other	**Total**
As at 01.10.2007	10,108	806	125,596	233,924	50,312	420,746
Changes in consolidated companies	-37	-	-	-	854	817
Currency differences	-1	1	10,603	-2,500	-9,993	-1,890
Recourse	-390	-473	-82	-47,310	-4,238	-52,493
Reversal	-2,210	-	-92	-7,073	-5,778	-15,153
Appropriation	486	430	498	63,321	38,829	103,564
IFRS 5 and other reclassifications	107	-	-23,695	32,358	-4,913	3,857
As at 30.09.2008	**8,063**	**764**	**112,828**	**272,720**	**65,073**	**459,448**

Staff provisions include provisions for severance payments and anniversary and death benefit income. In addition to provisions for pre-retirement part-time work arrangements, the provisions for reorganisation also include provisions for negative net rental income risks in the Real Estate subgroup to the amount of 146,522 th. € (previous year: 148,371 th. €). Other provisions mainly relate to litigation risks and liabilities for restoring sites.

The provisions for contingent losses from pending transactions primarily exist for hotel bookings and aircraft liabilities.

35 TRADE PAYABLES

Breakdown by business segment

Amounts shown in th. €	30.09.2008	30.09.2007
Thomas Cook	2,209,206	1,705,885
Primondo	450,999	439,559
Karstadt	503,254	468,212
Services	16,375	23,896
Other	36,664	33,498
	3,216,498	**2,671,050**

The carrying amounts of monetary liabilities are their market values.

In the 2007/2008 financial year, first-ranked collateral was created on inventories as at September 30, 2008 in favor of the credit insurance companies of the Group suppliers.

36 CURRENT PROVISIONS

Amounts shown in th. €	30.09.2008	30.09.2007
Other tax provisions (other taxes)	39,010	46,368
Other current provisions	495,656	550,402
	534,666	**596,770**

During the 2007/2008 financial year, other tax provisions of 3,453 th. € were utilized. Reversals and appropriations totaled 8,852 th. € and 5,425 th. € respectively. In addition, 478 th. € in liabilities were reclassified in connection with assets held for sale.

Movements of other current provisions

Amounts shown in th. €	Staff	Guarantees/ warranties	Contingent losses from pending transactions	Reorganization	Other	**Total**
As at 01.01.2007	2,366	65,573	19,420	374,910	88,133	550,402
Changes in consolidated companies	-	-44	15	-3,243	-26,311	-29,583
Currency differences	-	2,385	139	-790	-3,642	-1,908
Recourse	-119	-29,600	-19,004	-160,664	-10,743	-220,130
Reversal	-552	-1,079	-85	-43,414	-26,871	-72,001
Appropriation	-	33,728	15,393	158,522	47,339	254,982
IFRS 5 and other reclassifications	-	-5,246	-	-23,862	43,002	13,894
As at 30.09.2008	**1,695**	**65,717**	**15,878**	**301,459**	**110,907**	**495,656**

Provisions for reorganization include provisions for redundancy payments (185,100 th. €) and other obligations amounting to 60,698 th. €. Other provisions mainly relate to litigation risks and restoration liabilities.

37 CONTINGENT LIABILITIES AND OTHER FINANCIAL LIABILITIES

Amounts shown in th. €	**30.09.2008**	30.09.2007
Liabilities resulting from guarantees	333,923	422,491
Liabilities under warranty agreements	-	592
Liability resulting from the provision of collateral for third-party liabilities	6,632	9,529
	340,555	**432,612**

Liabilities resulting from guarantees include 89.0 mill. € to VALOVIS Bank AG. Arcandor AG also issued an exemption declaration in line with Section 5 (10) of the Deposit Fund Statutes to the deposit guarantee fund of the Bundesverband deutscher Banken e.V.

Other financial obligations

Purchase commitments for goods purchased amount to 609.6 mill. € (previous year: 785.9 mill. €)

There is also an obligation to contract exclusive logistics services to DHL stemming from service contracts concluded between DHL Solutions Großgut GmbH and the companies Karstadt Warenhaus GmbH and Quelle GmbH. The minimum sales obligation for a remaining term of seven years amounts to 2.4 bill. € (previous year: 2.8 bill. €).

In addition, a framework agreement has been concluded between the Arcandor Group and ATOS Origin GmbH, which provides for a minimum volume of orders of 290.0 mill. € to be placed with Group companies in the period until 2010 (previous year: 508.0 mill. €). This volume is reduced when companies leave the Group. Thus no clear financial liability can be attributed to Arcandor AG as at the balance sheet date.

Following the sale of 74.9% of shares, there is also a minimum sales obligation with EDS ITELLIUM until 2010 for IT services for Arcandor Group companies. In addition, a minimum sales agreement has been concluded with Primondo companies until 2015, which amounts to an obligation volume of 69.9 mill. € (previous year: 79.6 mill. €) discounted to the reporting date (the total gross obligation by 2015 is 83.6 mill. €). The Arcandor Group is in negotiations with EDS Itellium about the annulment of the EDS framework agreement concerning the outsourcing of IT services. At present, a significant financial negative impact from these negotiations is seen as improbable.

Other liabilities for Thomas Cook within the scope of providing IT services amount to 274.8 mill. € (previous year: 291.6 mill. €). Obligations from tourism guarantees amount to 25.7 mill. € (previous year: 117.8 mill. €); and relate in particular to the guarantee obligations of Thomas Cook UK and Thomas Cook North Europe.

Thomas Cook also has other financial obligations of 444.4 mill. € (previous year: 346.2 mill. €), which primarily relate to redemption payments and maintenance obligations for leased aircraft.

The Thomas Cook Group complies with all the standards relevant to consumer information and package tour contracts and has all the necessary licenses for the various sales markets. The customer's right to reimbursement of the return travel costs and amounts paid in case of insolvency or bankruptcy on the part of the tour operator or travel agency is guaranteed in all Thomas Group sales markets in line with local legislation and within the framework of the various guarantee systems applied. Customer rights in relation to Thomas Cook Group in Germany, Belgium and Austria are guaranteed via an insolvency insurance system, in Ireland, Scandinavia and France via guarantees provided by banks and insurance companies, in the Netherlands via a guaranteed fund. In Great Britain, the insolvency insurance system of guarantees provided was changed to a fund-based system in the reporting period. The new system obligates the tour operator to pay a small amount per insured customer into the fund at the time of booking.

The external tax audits currently being carried out may also result in not insignificant backpayments of taxes.

38 FINANCIAL INSTRUMENTS

Hedging of risks with derivative financial instruments

Risk management is responsible for all hedging and financing activities in the Arcandor Group and operates a financial reporting system covering the entire Group. The financial reporting system enables currency, interest-rate and liquidity risks affecting the Group to be identified and appropriate measures and strategies to be adopted to counteract these risks. The risks are controlled centrally in accordance with guidelines issued by the Management Board.

Derivative financial instruments may never be used for speculative purposes; they serve exclusively to hedge current underlying transactions or forecast transactions. Hedges are used to minimize the risk of default and are only concluded with leading financial service providers. Identified risks are assessed on the basis of simulation calculations, taking into consideration various worst case and market scenarios.

The information available on markets and suitable valuation methods are used to measure the market value of the derivative financial instruments used. The fair value of options is determined using recognized option pricing models and the fair value of interest-rate derivatives is determined allowing for remaining maturities on the basis of current market interest rates and the interest rate structure.

IAS 39 distinguishes between two types of hedges: cash flow hedges and fair value hedges. A cash flow hedge is used to hedge the risk of fluctuating cash flows. A fair value hedge is for hedging the risk of changes in the fair value of balance sheet positions.

Cash flow hedges – currency risks

On account of its international focus, the Arcandor Group is subject to currency risks in connection with payments in currencies other than its functional currency in its ordinary activities. These primarily arise from exchange rate fluctuations for cash flows for receivables, pending transactions, expected transactions, payments for the procurement of goods, fuel and supplies and for investments in and the financing of aircraft.

In particular, in order to limit currency risks, the Group uses currency forwards and options with terms of up to 19 months or until 2011 for aircraft finance, as well as collar options, which are a combination of a purchase and simultaneous sale of options in the same currency. Collar options are normally concluded in such a form that the premium to be paid is equal to the premium resulting from the option sale. Additional fuel price hedges take the form of fixed price and option transactions on the crude oil market. Gas oil and kerosene derivatives can also be used to a small extent.

On account of these hedging activities, the Arcandor Group was not subject to any significant currency risks on the reporting date. Currency risks arising from the conversion of the assets and liabilities of foreign Group companies to the Group's reporting currency and that therefore do not relate to cash flows are not hedged.

As of September 30, 2008, there were currency hedges for obligations not yet shown on the balance sheet on account of currency fluctuations. In particular, the underlying transactions are planned payments in US dollars, GBP and HK dollars for the procurement of goods and tourism services. The periods in which the underlyings are recognized in the consolidated financial statements and the payments associated with the hedges received are generally up to 19 months.

Cash flow hedges – interest rate risks

Interest rate risks arise from the sensitivity of financial instruments to changes in market interest rates. The Arcandor Group limits such risks by using interest rate derivatives such as swaps, futures, FRAs and caps, taking into consideration its current and planned future financing structure. Coordinated interest rate hedging measures are carried out separately by the respective risk management of Arcandor AG and Thomas Cook Group plc.

Cash flow hedges – commodity price risks

Thomas Cook concluded hedging transactions to limit the risk of unfavorable developments in the price of fuel. The Thomas Cook Group's hedging policy provides for hedging of 95% of the fuel requirements for the current flight schedule. Under the Thomas Cook hedging schedule, lower minimum hedging levels are to be secured for up to three consecutive flight schedule periods. As at September 30, 2008, hedging transactions for a fuel quantity of 1,880.9 th. tons (previous year: 1,675.6 th. tons) for periods up to 2010 had been concluded. Crude oil price range options and hedge combinations were mainly used as a hedging instrument; to a lesser extent gas oil and kerosene derivatives and derivatives for hedging price differences between the various product groups (cracks) were used.

Risks from share price changes

Arcandor AG issued a share-based convertible bond to Thomas Cook Group plc. Risks arise from fluctuations of the Thomas Cook Group plc share price up until the time of conversion.

Creditors of the convertible bond are entitled to convert their respective bonds into shares of Thomas Cook Group plc. Arcandor AG retains the right to exercise conversion rights by paying a monetary amount. The monetary amount to be paid is measured at the current price of the Thomas Cook Group plc share.

According to IAS 39, a convertible bond is a hybrid financial instrument which contains a non-derivative host transaction with the bond component and an embedded derivative with the convertible option. Embedded derivatives are separated from the host contract, which is not recognized at fair value through profit and loss, if the result of the assessment is that the characteristics and risks of embedded derivatives are not closely linked to those in the host contract. In such a case, the embedded derivative is to be recognized at fair value. Valuation changes are recognized in the income statement. In contrast, the recognition and measurement of the host contract follows the guidelines of the applicable category of the financial instrument.

According to the criteria of IAS 39.11, there is an obligation to separate the host transaction and the derivative for a convertible bond. The bond component is valued at 234 mill. €, while the embedded derivative has a fair value of 34.9 mill. €.

To hedge the risk of share price changes, a call option on Thomas Cook Group plc shares was concluded, which is valued at 23.7 mill. € as at the balance sheet date.

Sensitivity analysis variable rate financial instruments

Amounts shown in th. €	**30.09.2008**	30.09.2007
Derivatives on shares at reporting date	**-11,206**	**-**
Change hedging reserve		
Interest rate +5 %	-	-
Interest rate -5 %	-	-
Income statement		
Interest rate +5 %	-1,946	-
Interest rate -5 %	1,858	-

There were no fair value hedges as at September 30, 2008.

The nominal value of derivative financial instruments as at the reporting date was 5.43 bill. € (previous year: 2.43 bill. €). The total fair values were 135.4 mill. € (previous year: 63.7 mill. €).

Risks from financial instruments

Net income from financial instruments

Amounts shown in th. €	**01.10.2007 – 30.09.2008**	01.01.2007 – 30.09.2007
Loans and receivables granted	186,738	239,117
Available for sale	245,746	5,425
Held to maturity	-5,768	902
Held for trading	-	-190
Derivatives	-	-19,462
Leases	-951	-10,411
Liabilities at amortized cost	-282,250	-135,965
Liabilities at fair value	-5,089	-
	138,426	**79,416**

Carrying amounts by category

Amounts shown in th. €	**30.09.2008**	30.09.2007
Loans and receivables granted	3,226,086	3,645,919
Available for sale	493,026	998,767
Held for trading	-	-541
Derivatives	50,756	-63,683
Held to maturity	338	1,012
Leases	-1,258,960	-814,294
Liabilities at amortized cost	-6,712,192	-5,975,785
	-4,200,946	**-2,208,605**

In its international business areas, the Arcandor Group is subject to various risks. For a detailed presentation of these risks and their management, please see the risk report on pages 86 to 90 of the Management Report.

The Group essentially uses derivative financial instruments in hedges to manage interest rate, currency and price risks.

The risks arising as at the reporting date from the use of non-derivative and derivative financial instruments are also the subject of risk management in the Arcandor Group. The risks relating to the holding company and the Karstadt and Primondo subgroups are largely managed centrally by Arcandor AG. Specific risks affecting Thomas Cook are managed there on the basis of an overall uniform Group strategy.

The risks resulting from the financial instruments relate to credit risks, liquidity risks and market risks.

Credit risks exist in the form of the risk of default on financial assets. Liquidity risks represent refinancing risks and therefore the risks of meeting the Group's payment obligations on time. Market risks occur in the Group in the form of interest rate risks, currency risks and price risks.

The maximum default risk in the Group is equal to the carrying amounts of its financial assets. For derivatives, this is the total of all positive fair values and for non-derivative financial instruments the total of the carrying amounts. Default risks are taken into account by write-downs. In the Primondo division, certain mail order receivables are sold to a factor and derecognized in the amount of the transferred risks and rewards at the time of sale. Thus, the Group has a default risk here in the amount of its continuing involvement. To minimize the risk of default of derivative financial instruments, the corresponding transactions are only concluded with counterparties with first class credit ratings. In particular, there are no specific risk concentrations due to high-volume business. In light of this, the risk of default is rated as low.

The findings of the Group strategy and Group planning process are used to enable an early assessment of the future liquidity situation. The complex financial planning instruments used there show the expected liquidity development over a planning horizon of up to three years. Twelve-month liquidity planning is updated on an ongoing basis using current data.

IFRS 7 requires sensitivity analyses to show market risks. Hypothetical changes in past risk variables are used to reveal the effects on earnings and equity. The main risks that are relevant to the Arcandor Group are the interest rate risks and risks of currency fluctuations. Fuel price risks are also analyzed in the Thomas Cook subgroup.

The levels of financial instruments as at the balance sheet date are representative for the financial year as a whole. In order to calculate the effects on earnings and equity, the levels of financial instruments are calculated as at the balance sheet date with increases and decreases in risk variables.

Currency risks

In the Arcandor Group, currency risks as defined by IFRS 7 arise from financial instruments not denominated in Group currency. Differences from the conversion of financial statements into Group currency to prepare the consolidated financial statements are not taken into account. All currencies in which financial instruments of the Arcandor Group exist are considered to be risk variables, except the Group currency.

The following premises apply to sensitivity analyses for currency risks:

Exchange rate changes are not a risk for non-derivative financial instruments such as cash and cash equivalents, financing receivables, securities, bonds or interest-bearing or non-interest-bearing liabilities as they are either in a foreign currency or are transformed into the relevant foreign currency by derivative instruments. Therefore, non-derivative financial instruments do not have any effect on earnings or equity. The interest expenses and income arising from these instruments are either in a foreign currency or are also converted into this currency by derivatives.

Therefore, the Arcandor Group only has currency risks from specific currency derivatives. On the one hand, these are derivatives in an effective cash flow hedge for cash flow fluctuations due to changes in exchange rates. Changes in the exchange rates for the corresponding currencies affect the fair value of hedges and reserves in equity. On the other hand, they are currency derivatives intended to hedge forward transactions and therefore do not hedge an underlying. Changes in the exchange rates for the corresponding currencies result in a gain or loss on measurement due to the adjustment of financial assets to fair value and are reported under other financial earnings/expenses.

Sensitivity analysis currency HKD

Amounts shown in th. €	**30.09.2008**	30.09.2007
Fair value derivatives	**8**	**-60**
Change hedging reserve		
Exchange rate +5 %	-42	-65
Exchange rate -5 %	47	65
Income statement		
Exchange rate +5 %	-	-
Exchange rate -5 %	-	-

Sensitivity analysis currency USD

Amounts shown in th. €	**30.09.2008**	30.09.2007
Fair value derivatives	**-137,000**	**-73,212**
Change hedging reserve		
Exchange rate +5 %	-94,228	-65,351
Exchange rate -5 %	104,566	78,228
Income statement		
Exchange rate +5 %	2,756	649
Exchange rate -5 %	-9,112	-1,654

Sensitivity analysis currency GBP

Amounts shown in th. €	30.09.2008	30.09.2007
Fair value derivatives	**303**	**-**
Change hedging reserve		
Exchange rate +5 %	-578	-
Exchange rate -5 %	1,108	-
Income statement		
Exchange rate +5 %	-	-
Exchange rate -5 %	-	-

Sensitivity analysis fuel prices

Amounts shown in th. €	30.09.2008	30.09.2007
Fair value derivatives	**-51,654**	**78,970**
Change hedging reserve		
Price +20 %	189,819	49,691
Price -20 %	-174,689	-62,454
Income statement		
Price +20 %	-	-
Price -20 %	-	-

Interest rate risks

Interest rate risks result from changes in market interest rates. The company limits these risks by using interest rate derivatives such as interest rate swaps and interest rate futures.

IFRS 7 requires sensitivity analyses to present interest rate risks. These show the effects of changes in market interest rates on interest payments, interest expenses and interest income, other types of income and equity.

The following premises apply to sensitivity analyses for interest rate risks: Non-derivative financial instruments with fixed interest rates are only subject to interest rate risks if they are measured at fair value. Financial instruments measured at cost are not subject to risks due to changes in market interest rates.

In effective fair value hedges, the earnings effects on underlyings and hedges caused by changes in interest rates almost completely offset each other, with the result that no risks arise in this area.

In cash flow hedges to hedge fluctuations due to interest rates, changes in the market interest rate can affect reserves in equity. Therefore, these financial instruments are included in the sensitivity analysis.

Non-derivative financial instruments with variable interest rates are subject to market interest rate risks and are also included in the sensitivity analysis. Analyses also include changes in the market interest rates affecting interest rate derivatives that are not incorporated in a hedge in line with IAS 39 as changes in interest rates can affect other net financial income.

The intra-year monthly levels of variable rate financial instruments were used as a basis for the following sensitivity analysis.

Sensitivity analysis variable rate financial instruments

Amounts shown in th. €	30.09.2008	30.09.2007
Variable rate financial instruments at reporting date	**-641,467**	**-571,289**
Change hedging reserve		
Interest rate +1 %	-	-
Interest rate -1 %	-	-
Income statement		
Interest rate +1 %	-8,257	-2,266
Interest rate -1 %	8,257	2,266

Other information on financial instruments

In the reporting period, no financial assets were reclassified to a different measurement category of IAS 39.

In the reporting period, no financial assets or liabilities were designated as at fair value through profit or loss.

The fair values of non-current receivables and financial investments held to maturity are the net present values of the cash flows resulting from the financial instruments. Current interest parameters are used in the calculation of net present values that reflect changes in conditions and forecasts for markets and partners.

For current financial assets and liabilities that are not derivatives, the respective carrying amount is an appropriate approximation of the fair value as defined by IFRS 7.29 (a).

Additional disclosures financial instruments

		Classification as per IAS 39							
Amounts shown in th. €	**Book value as at 30.09.2008**	Loans & receivables	Available for sale	Held to maturity	Held for trading	Derivatives	Leases	Liabilities at amortized cost	No financial instrument
Assets									
Non-current financial assets	713,507	378,785	237,560	101	-	97,061	-	-	-
Trade receivables	715,133	715,133	-	-	-	-	-	-	-
Current financial assets	1,105,613	761,442	565	237		343,369	-	-	-
Cash and cash equivalents and securities	1,317,850	1,138,779	179,071	-	-	-	-	-	-
Assets classified as held for sale	341,052	231,947	75,830	-	-	-	-	-	33,275
Equity and liabilities									
Non-current financial liabilities	1,903,817	-	-	-	-	51,164	999,211	853,442	-
Other non-current financial liabilities	323,621	-	-	-	-	119,106	-	204,515	-
Current financial liabilities	1,610,945	-	-	-	-	-	259,749	1,351,196	-
Trade payables	3,216,498	-	-	-	-	-	-	3,216,498	-
Other current liabilities	1,119,588	-	-	-	-	219,404	-	900,184	-
Liabilities related to assets classified as held for sale	195,741	-	-	-	-	-	-	186,357	9,384

		Classification as per IAS 39							
Amounts shown in th. €	**Book value as at 30.09.2007**	Loans & receivables	Available for sale	Held to maturity	Held for trading	Derivatives	Leases	Liabilities at amortized cost	No financial instrument
Assets									
Non-current financial assets	515,960	389,664	95,626	756	-	29,914	-	-	-
Trade receivables	685,856	685,856	-	-	-	-	-	-	-
Current financial assets	1,094,697	979,513	766	224	99	114,095			-
Cash and cash equivalents and securities	1,505,643	1,116,106	389,505	32	-	-	-	-	-
Assets classified as held for sale *	1,191,479	474,780	512,870	-	-	-	-	-	203,829
Equity and liabilities									
Non-current financial liabilities	1,191,000	-	-	-	-	-	692,908	498,092	-
Other non-current financial liabilities	897,748	-	-	-	-	32,622	-	865,126	-
Current financial liabilities	1,276,164	-	-	-	-	-	121,386	1,154,778	-
Trade payables	2,671,050	-	-	-	-	-	-	2,671,050	-
Other current liabilities	682,729	-	-	-	640	173,762	-	508,327	-
Liabilities related to assets classified as held for sale *	567,877	-	-	-	-	1,308	-	318,048	248,521

* The data has been adjusted.

Notes to the consolidated cash flow statement

The consolidated cash flow statement can be found on page 95. It shows the changes in the cash and cash equivalents of the Arcandor Group in the 2007/2008 financial year. In accordance with IAS 7, cash flows are broken down into cash flow from operating activities, investing activities and financing activities.

39 CASH FLOW FROM OPERATING ACTIVITIES

Beginning with consolidated earnings after minority interests and the reconciliation of earnings from operational activities (earnings before interest and tax, depreciation and amortization, EBITDA), non-cash expenditure and income are eliminated and the impact on the liquidity situation from a change of working capital and changes in other current assets/equity and liabilities is shown. In particular, for the purpose of greater comparability, the effects resulting from appropriations to provisions for reorganization are shown on a separate line.

In the 2007/2008 financial year, cash flow from operating activities amounted to minus 47,827 th. € (previous year: plus 14,525 th. €). The change of working capital, which is primarily attributable to the seasonal increase in trade payables in the Tourism segment, had a particularly positive effect on the cash flow from operating activities. The change in other assets/equity and liabilities primarily affects the finalization of new currency and fuel hedges at Thomas Cook.

40 CASH FLOW FROM INVESTING ACTIVITIES

In the 2007/2008 financial year, cash flow from investing activities amounted to minus 157,835 th. € (previous year: minus 352,005 th. €). This was mainly dominated by payments for new acquisitions by Thomas Cook Group plc totaling 398,772 th. € and by proceeds from the disposal of subsidiaries, in particular the share in the real estate company Highstreet of a total 433,412 th. €. In addition, proceeds of 204,249 th. € from the sale of securities and 61,836 th. € from the disposal of intangible and tangible assets were generated in the 2007/2008 financial year. Cash amounting to 413,742 th. € (previous year: 254,422 th. €) was used for investments in intangible and tangible assets.

41 FREE CASH FLOW

The free cash flow resulting from cash flows from operating activities and cash flows from investing activities amounts to minus 205,662 th. € (previous year: minus 337,480 th. €).

42 CASH FLOW FROM FINANCING ACTIVITIES

In the 2007/2008 financial year, cash flow from financing activities amounted to 254,941 th. € (previous year: 334,749 th. €). The cash flow from financing activities is due largely to the loans assumed to finance new acquisitions by Thomas Cook Group plc and to payments in connection with the share buyback program and interest and pensions paid.

43 CASH AND CASH EQUIVALENTS

Amounts shown in th. €	**30.09.2008**	30.09.2007*
Cash and cash equivalents	1,166,588	1,126,846
thereof discontinued operations	27,809	10,740
Current securities	16,677	22,894
	1,183,265	**1,149,740**

* The data has been adjusted in accordance with IFRS 8.

Segment reporting

Information on the segments is shown on pages 96 and 97. The segment report was prepared in accordance with the regulations of IAS 14 and breaks down the primary report format into business divisions and the secondary report format into regions.

NOTES TO THE SEGMENT REPORT

The Holding segment (Arcandor AG and Karstadt Finance B.V.) does not represent any material value added in comparison to the operative segments on the basis of the “risk and reward” principle. For this reason information on the Holding segment has been included in the reconciliation account.

Intercompany sales relate to sales relationships between the Group companies. Transfer prices are always equivalent to those charged by outside third parties. The management variable for the segment is the earnings before cost relating to factoring, interest, tax, depreciation and amortization (EBITDA).

Segment assets and segment liabilities are as follows:

Segment assets and segment liabilities

Amounts shown in th. €	30.09.2008	30.09.2007*
Segment assets		
Balance sheet total	14,009,125	14,103,479
Investment and shares in subsidiaries und associates	-324,720	-240,526
Deferred taxes	-610,026	-676,404
Intragroup receivables/loans	-91,853	-80,789
Cash and cash equivalents, non-current and current securities and other loans	-1,451,365	-1,576,920
Assets classified als held for sale	-341,052	-1,191,479
	11,190,109	**10,337,361**
Segment liabilities		
Balance sheet total	14,009,125	14,103,479
Equity	-1,230,238	-2,410,295
Financial liabilities	-3,514,762	-2,467,164
Pension provisions	-977,586	-1,024,557
Other interest-bearing liabilities	-	-38,142
Intragroup liabilities	-24,457	-51,691
Deferred taxes	-390,257	-378,088
Liabilities from assets classified as held for sale	-195,741	-567,877
	7,676,084	**7,165,665**

* The data has been adjusted.

Investments comprise intangible assets (not including acquired goodwill) and tangible assets. They do not include additions to finance leases or capitalized restoration liabilities.

Gross cash flow comprises earnings before income taxes, depreciation, amortization of goodwill and financial income after adjustment for earnings or losses from the disposal of assets, changes in non-current provisions and other expenses and earnings not recognized in cash.

Segment expenses include non-cash expenses of 174,328 th. € (previous year: 339,103 th. €). 46,923 th. € relates to the Thomas Cook segment, 84,400 th. € to Primondo, 27,986 th. € to Karstadt, 7,312 th. € to Real Estate, and 7,707 th. € to Services.

Other information

CLAIMS AND LITIGATION

The Arcandor Group is in negotiations with EDS Itellium relating to the withdrawal of the EDS framework agreement. At present, a significant financial negative impact from these negotiations is seen as improbable. There were no further significant legal disputes as at the balance sheet date.

EVENTS AFTER THE BALANCE SHEET DATE

In October 2008, a “Pact for the Future” was resolved between the Management Board, Group Works Council and the ver.di union. In the coming three years, the “Pact for the Future” provides for savings in staff costs totaling 345.0 mill. € in the Primondo, Karstadt and Arcandor Holding segments.

On October 23, 2008, the capital increase resolved on September 29, 2008 was entered into the Commercial Register.

Effective at the close of October 31, 2008, Mr. Hero Brahms and Mr. Juergen Schreiber resigned their positions as members of the Supervisory Board for personal reasons. The District Court of Essen appointed Mr. Friedrich Carl Janssen and Dr. Hans-Jochem Lüer as members of the Supervisory Board to represent the shareholders on November 9, 2008. In its meeting on November 13, 2008, the Supervisory Board elected Mr. Friedrich Carl Janssen as its Chairman.

On November 3, 2008, Sal. Oppenheim jr. & Cie. KGaA provided Arcandor AG with a loan of 20 mill. €. The loan has a duration of five months.

On November 28, 2008, the Arcandor AG Management Board was restructured. The Supervisory Board appointed Mr. Stefan W. Herzberg and Mr. Rüdiger Andreas Günther to the Management Board effective from December 1, 2008. Mr. Günther is to replace the current CFO Dr. Peter Diesch, who is resigning from the Management Board as of December 31, 2008. In addition, Professor Helmut Merkel is leaving the Arcandor AG Management Board effective from December 31.

On December 4, 2008, the Supervisory Board of Arcandor AG appointed Dr. Karl-Gerhard Eick as the new Chairman of the Arcandor AG Management Board effective from March 1, 2009. At the same time, Dr. Thomas Middelhoff will retire as Chairman of the Management Board.

At the end of November 2008, the Quelle GmbH management came to an agreement with the Works Council on a reconciliation of interests and a social plan. These foresee an adjustment of personnel capacity. The resulting financial obligation is estimated at 30 mill. €.

TOTAL REMUNERATION OF THE MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Amounts shown in th. €	30.09.2008	30.09.2007
Management Board		
Fixed remuneration	6,022	3,965
Variable components	12,661	6,439
	18,683	**10,404**
Provision for phantom stock program	**21**	**316**
Additions to pension obligations	**1,059**	**138**
Supervisory Board		
Fixed remuneration	492	364
For other positions held in the Arcandor Group	25	9
	517	**373**
Former members of the Management Board and their surviving dependents		
Payments	**4,404**	**4,117**
Pension obligations (DBO)	**54,413**	**59,818**

Settlements and interim payments totaling 3.0 mill. € were agreed with Management Board members who retired during the financial year.

A description of the remuneration system and the individualized remuneration of the members of the Management Board and the Supervisory Board is shown on the audited remuneration report (pages 63 to 68) which is part of the Group Management Report.

AUDITORS' FEES

The following table shows the fees paid to BDO Deutsche Warentreuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft as the auditors for Arcandor AG:

Amounts shown in th. €	01.10.2007 -30.09.2008	01.01.2007 -30.09.2007
Annual audit	1,632	1,080
Certification and/or valuation services	570	715
Tax consultancy	65	2
Other services	6	96
	2,273	**1,893**

RELATED PARTY TRANSACTIONS

The Arcandor Group maintained the following business relationships with related parties in the 2007/2008 financial year and in the 2007 short financial year:

In der Konzern-Gewinn- und Verlustrechnung enthalten:

Amounts shown in th. €	01.10.2007 -30.09.2008	01.01.2007 -30.09.2007
Goods and services supplied	6,033	12,956
Goods and services received	24,682	17,231

Included in Group balance sheet:

Amounts shown in th. €	30.09.2008	30.09.2007
Receivables	46,599	190,007
Payables	92,518	616,082

Mail order companies sold trade receivables to VALOVIS Bank AG which had been transferred to the Group pension fund without recourse. As at September 30, 2008, assigned receivables amounted to 1,090 mill. € gross (previous year: 1,537 mill. €). Under the sale VALOVIS Bank AG set up a contingency account which is paid back to the Group as long as actual losses on outstanding receivables do not exceed this amount. The reserve account showed a balance of 116 mill. € (previous year: 173 mill. €) on the balance sheet date.

Service relationships exist with companies of the KarstadtQuelle Pension Trust e.V. and II. KarstadtQuelle Pension Trust e.V. for the leasing of real estate. The related lease costs for the Group total 7,022 th. € (previous year: 6,555 th. €).

In January 2008, an Arcandor AG employee in the sense of IAS 24.9(d) acquired a 50% stake in Pension Trust Management GmbH. The acquisition is related to reorganizing the management of the contractual trust arrangements and was performed on an arm's length basis.

As of June 11, 2007, two typical silent partnerships between KarstadtQuelle Mitarbeitertrust e.V. (merged with II. KarstadtQuelle Pension Trust e.V. on October 12, 2007) and II. KarstadtQuelle Mitarbeitertrust e.V. on the one hand and Primondo Specialty Group GmbH on the other were agreed. As of September 30, 2008, there were silent partnerships totaling 444 mill. €. Further typical silent partnerships in real estate companies of 39 mill. € are included in the payables.

Liabilities include mortgage bonds passed on from VALOVIS Bank AG in the amount of 93 mill. € (previous year: 13 mill. €).

In the 2005 financial year, individual Group companies sold assets to Deutsche Post World Net AG or its affiliated companies and entered into long-term service agreements with companies of this group, of which the Chairman of the Management Board is a member of the Supervisory Board of Arcandor AG.

The Chairman of the Management Board and his wife hold shares in closed-end real estate funds which maintain contractual relations to the Arcandor Group. No influence is expected to be exercised due to the minor nature of the shareholding.

In addition to services and goods supplied, the Group and non-consolidated companies maintain relationships resulting from the reciprocal use of services. In these cases, services are invoiced at cost. Relationships with related companies are maintained on the same basis as those between third parties.

DECLARATIONS OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE IN ACCORDANCE WITH SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

The Management Board and the Supervisory Board last issued a Declaration of Compliance in accordance with section 161 of the German Stock Corporation Act on January 16, 2008. The declarations were made permanently available to the shareholders on the website at www.arcandor.com. The Declaration of Compliance for the 2007/2008 financial year is shown in the section on Corporate Governance on page 60 of the Annual Report.

EXEMPTION UNDER SECTION 264, PARAGRAPH 3 AND SECTION 264B OF THE GERMAN COMMERCIAL CODE (HGB)

The following German subsidiaries having the legal form of a corporation or commercial partnership in terms of section 264a, HGB have satisfied the requirements of section 264, paragraph 3 and section 264b, HGB for exemption from publishing financial statements under commercial law.

AXOS Vermögensverwaltung GmbH & Co. KG, Essen

Continental Inkasso GmbH, Frankfurt/Main

Corporate Service Group GmbH, Essen

DIV Deutsche Immobilienfonds Verwaltungsgesellschaft mbH & Co. Essen KG, Frankfurt

ECM EuroCenter Management GmbH, Essen

Elegance Rolf Offergelt GmbH, Aachen

Foto Quelle GmbH & Co. OHG, Nuremberg

Fox.Markt Handelsgesellschaft mbH & Co. KG, Fürth

Hess Natur-Textilien GmbH, Butzbach

Holm Beteiligungs GmbH & Co. KG, Pöcking, Starnberg County

“HOLM” Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt Brieselang KG, Pöcking, Starnberg County

“Holm” Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt Limburg KG, Pöcking, Starnberg County

HOLSTENFLOR-Beteiligungs-GmbH, Fürth

Holstenflor Beteiligungs GmbH & Co. Holding KG, Fürth

Karstadt GmbH, Essen

KARSTADT Immobilien AG & Co. KG, Essen

KARSTADT Immobilien GmbH & Co. Objekt Bad Homburg KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Bamberg, Grüner Markt KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Bamberg, Maximiliansplatz KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Berlin, Antonstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Berlin, Hermannplatz KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Berlin, Köpenick KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Berlin, Kurfürstendamm KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Berlin, Müllerstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Berlin, Schloßstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Berlin, Tauentzienstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Berlin, Tempelhofer Damm KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Berlin, Turmstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Bielefeld, Bahnhofstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Bochum, Im Steinhof KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Bottrop, Hansa-Strasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Braunschweig, Schuhstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Bremen, Obernstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Bremen, Sögestrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Bremerhaven KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Celle, Bergstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Celle, Mauernstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Cuxhaven KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Deggendorf, Heiglstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Deggendorf, Oberer Stadtplatz KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Delmenhorst KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Dessau, Ratsgasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Detmold KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Dortmund, Aplerbecker Marktplatz KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Dortmund, Ostenhellweg KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Dortmund, Strickerstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Dortmund, Westenhellweg KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Dresden, Birkigter Strasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Dresden, Pragerstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Duisburg Mitte KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Duisburg, Am Buchenbaum KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Duisburg, Kirchstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Duisburg, Münzstrasse I. KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Duisburg, Tonhallenstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Düsseldorf, Dillenburger Weg KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Düsseldorf, Emil-Barth-Strasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Düsseldorf, Liesegangstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Düsseldorf, Schadowstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Düsseldorf, Tonhallenstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Düsseldorf, Waagenstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Elmshorn KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Erkrath KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Eschwege KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Essen, Altenessener Strasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Essen, Friedrich-Ebert-Strasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Essen, Gerichtsstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Essen, Haedenkampstr. KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Essen, Hafenstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Essen, Limbecker Strasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Essen, Rüttenscheider Strasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Essen, Theodor-Althoff-Str. II KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Essen, Theodor-Althoff-Strasse III KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Essen, Westendstrasse 2 KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Essen, Wüstenhofer Strasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Essen, Zweigertstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Esslingen KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Flensburg, Holm KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Frankfurt, Brönnerstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Fulda KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Garbsen KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Geldern KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Gelsenkirchen KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Gießen, Rodheimer Strasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Gießen, Seltersweg KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Gießen, Westanlage KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Gladbeck KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Görlitz, An der Frauenkirche KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Goslar, Rosentorstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Goslar, Woldenbergstr. KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Göttingen KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Gronau KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Gummersbach KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Halle, Große Märkerstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Halle, Mansfelder Str. KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Eppendorfer Landstr. KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Hamburger Strasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Krohnstieg KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Kümmelstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Marktpassage KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Möllner Landstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Mönckebergstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Osterstrasse I KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Pinkertweg KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Schloßmühlendamm KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Wandsbeker Marktstr. I KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Wandsbeker Königstr.I KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Wandsbeker Königstr.II KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Wandsbeker Marktstr.II KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hanau KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hannover, Georgstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hannover, Georgstrasse 24 KG i.L., Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hannover, Große Packhofstr. KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hannover, Kl. Packhofstr. KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hannover, Schillerstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hattingen KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Herdecke KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Holzwickede KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hoyerswerda KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hückelhoven KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Husum KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Idar-Oberstein KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Iserlohn KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Itzehoe, Breite Strasse I KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Itzehoe, Breite Strasse II KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Kaiserslautern KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Kamen KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Karlsruhe, An der Roßweid KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Karlsruhe, Zähringer Strasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Kiel, Eggerstedterstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Kiel, Holstenstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Köln, Breite Strasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Köln, Florenzer Strasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Köln, Friedrich-Ebert-Platz KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Köln, Rudolf-Diesel-Strasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Laatzen, Mannheimer Strasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Laatzen, Robert-Koch-Strasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Landshut, Landgasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Leonberg KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Limburg KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Lübeck, Holstenstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Lübeck, Königstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Lübeck, Wehdehof KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Ludwigsburg KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Lüneburg, Am Berge KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Lüneburg, Auf den Wüstenort KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Lüneburg, Finkstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Lüneburg, Große Bäckerstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Lünen KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Magdeburg, Breiter Weg KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Mannheim, K1 KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Marl KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Mettmann KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Mölln, Hauptstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Mölln, Seestrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Mönchengladbach KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Muggensturm KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Mülheim KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Munich County, Bahnhofplatz KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Munich County, Fürstenrieder Str. KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Munich County, Neuhauser Str. KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Munich County, Riesstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Munich County, Synagogenplatz KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Munich County, Theresienhöhe KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Münster, Salzstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Neumünster, Großflecken II KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Neustadt, Bachgängel KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Niebüll KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Norderstedt KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Nürnberg, Oppelner Strasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Nürnberg, Vordere Insel Schütt KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Peine KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Potsdam KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Recklinghausen, Markt II KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Recklinghausen, Schaumburgstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Remscheid KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Rendsburg, Altstädter Markt KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Rheine KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Rosenheim KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Schleswig KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Siegen KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Singen KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Stade, Steile Strasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Stade, Wallstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Stuttgart, Königstrasse I KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Stuttgart, Königstrasse II KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Trier, Fahrstrasse 1 KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Unna, Gießerstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Unna, Hammerstrasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Velbert KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Viernheim KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Wesseling KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Wiesbaden, Kirchgasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Wilhelmshaven KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Wismar KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Wolfenbüttel KG, Grünwald, Munich County

KARSTADT QUELLE Business Services GmbH, Essen

KARSTADT QUELLE Freizeit GmbH, Essen

KARSTADT QUELLE Information Services GmbH, Essen

KARSTADT QUELLE Kunden-Service GmbH, Essen

KARSTADT QUELLE Service GmbH, Essen

KarstadtQuelle Joint Venture GmbH & Co. KG, Essen

KARSTADT Vermietungsgesellschaft mbH, Essen

Karstadt Warenhaus GmbH, Essen

KATEC Leasing GmbH & Co. Vermietungs KG, Pöcking, Starnberg County County

Le Buffet System-Gastronomie und Dienstleistungs-GmbH, Essen

Mirabeau Versand GmbH, Fürth

MOSTIA Grundstücksgesellschaft mbH & Co. KG, Grünwald, Munich County

Myby GmbH & Co. KG, Düsseldorf

Noris International Trading Verwaltungs-GmbH, Nuremberg

OPTIMUS Beteiligungs GmbH & Co. Objekt Karl-Marx-Strasse KG, Pöcking, Starnberg County

OPTIMUS Beteiligungs GmbH & Co. Vermietungs-KG, Pöcking, Starnberg County

Optimus Grundstücksgesellschaft mbH & Co. KG Objekt Kiel KG, Pöcking, Starnberg County

Optimus Logistics GmbH, Nuremberg

Optimus Verwaltung GmbH & Co. Objekt Berlin-Neukölln KG, Pöcking, Starnberg County

OPTIMUS Verwaltung GmbH & Co. Objekt Munich County-Schwabing KG, Pöcking, Starnberg County

OPTIMUS Verwaltung GmbH & Co. Objekt Ratingen KG, Pöcking, Starnberg County

OPTIMUS Verwaltung GmbH & Co. Objekt Wiesbaden KG, Pöcking, Starnberg County

Primondo GmbH, Essen

Primondo Operations GmbH, Fürth

Primondo Management Service GmbH, Fürth

Primondo GmbH, Essen

Primondo Neue Geschäftsfelder GmbH, Fürth

Primondo Operations GmbH, Fürth

Primondo Specialty Group Beteiligungs GmbH, Fürth

Primondo Specialty Group GmbH, Fürth

Producta Daten-Service GmbH, Frankfurt/Main

Profectis GmbH Technischer Kundendienst, Nuremberg

Quelle Communication Center Berlin GmbH, Berlin

Quelle Communication Center Cottbus GmbH, Cottbus

Quelle Communication Center Magdeburg GmbH, Magdeburg

Quelle GmbH, Fürth

Quelle Online GmbH, Fürth

Quelle South East Asia Service GmbH & Co. KG, Fürth

QUELLE.Contact Center GmbH, Nuremberg

Quelle.Contact Customer Services GmbH, Fürth

Quelle.Contact GmbH, Nuremberg

Quelle.Contact Holding GmbH, Fürth

Quelle.Contact Vertrieb GmbH, Fürth

RISAL Beteiligungs GmbH & Co. Objekt Berlin-Hauptstrasse KG, Pöcking, Starnberg County

RISAL Beteiligungs GmbH & Co. Objekt Emden KG, Pöcking, Starnberg County

RWA Regina Werbeagentur GmbH, Essen

SB-Gross Handels-GmbH C+C Großhandel Objektausstattung, Fürth

servicelogiQ GmbH logistische Dienstleistungen, Nuremberg

TARUS Beteiligungs GmbH & Co. Objekt Leipzig KG i.L., Pöcking, Starnberg County

TRADO Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt Dresden KG, Pöcking, Starnberg County

TRI Kottmann GmbH, Bad Waldsee

Universum Inkasso GmbH, Frankfurt/Main

Versandhaus Walz GmbH, Baby-Walz, Die moderne Hausfrau, Bad Waldsee

Corporate officers and their supervisory function in accordance with KonTraG

SUPERVISORY BOARD

Friedrich Carl Janssen since November 9, 2008
Chairman since November 13, 2008
Personally liable partner in Sal. Oppenheim jr. & Cie. S.C.A., Luxembourg, and Sal. Oppenheim jr. & Cie. KGaA, Cologne

- AXA Service AG
- Content Management AG
- Deutsche Hypothekenbank AG
- Interseroh SE (Deputy Chairman)
- – 4IP Management AG, Switzerland (President of the Administrative Board)
- – Bank Sal. Oppenheim jr. & Cie. (Österreich) AG **
- – Bank Sal. Oppenheim jr. & Cie. (Schweiz) AG **
- – Financière Atlas S.A., France (Chairman) **
- – moderne stadt Gesellschaft zur Förderung des Städtebaus und der Gemeindeentwicklung mit beschränkter Haftung
- – Sal. Oppenheim Alternative Asset Management S.A., Luxemburg **
- – Sal. Oppenheim jr. Cie. Corporate Finance (Schweiz) AG ** (Vice President)
- – Sal. Oppenheim Private Partners S.A., Luxemburg **
- – Services Généraux de Gestion S.A., Luxemburg **
- – SOAR European Equity Fund plc, Ireland *
- – VCM Capital Management GmbH **

Hellmut Patzelt * since April 2, 2008
Deputy Chairman
Chairman of the Central Works Council of Karstadt Warenhaus GmbH, Fulda branch, commercial employee

- Karstadt Warenhaus GmbH ** (Deputy Chairman)

Wilfried Behrens * until April 23, 2008
Managing Director of Karstadt Warenhaus GmbH, Gießen branch

Udo Behrenwaldt
Independent management consultant in the field of financial strategy, formerly spokesman for the management of DWS Investment GmbH

- Deutsche Asset Management Investmentgesellschaft mbH (Deputy Chairman)
- Deutsche Bank Privat- und Geschäftskunden AG
- Deutsche Börse AG
- Deutsche Vermögensbildungsgesellschaft mbH (Chairman)
- Feri EuroRating Services AG
- Feri Finance AG
- Investmentaktiengesellschaft für langfristige Investoren TGV (Deputy Chairman)
- – BioCentive Ltd., UK (Member of the Board of Directors)
- – InCentive Investment Ltd., UK (Member of the Board of Directors)

Andrea Beslmeisl * since April 23, 2008
Specialist in system testing, control and text

Hero Brahms until October 31, 2008
Chairman until October 31, 2008
Management consultant

- Deutsche Post AG
- Georgsmarienhütte Holding GmbH (Deputy Chairman)
- Live Holding AG
- Wincor Nixdorf AG
- – M.M. Warburg & Co. KGaA
- – Zumtobel AG, Austria (Deputy Chairman)

Dr. Diethart Breipohl until April 23, 2008
Member of various supervisory boards

- Continental AG
- – Crédit Lyonnais, France

Prof. Utho Creusen since April 23, 2008
Management consultant, former member of the Executive Board of Media-Saturn Holding GmbH

– M.video, Russia

Bodo Dehn * until April 23, 2008
Chairman of the Works Council of Karstadt Warenhaus GmbH, Mönchengladbach-Rheydt branch

- Karstadt Warenhaus GmbH

Peter Erb * since April 23, 2008
Managing Director of Karstadt Warenhaus GmbH, Dortmund branch

Leo Herl
Chairman of the Management Board of Madeleine Schickedanz Vermögensverwaltungs GmbH & Co. KG

- Quelle Bauspar AG (Chairman)

Ulrich Hocker
Managing Director of the Deutsche Schutzvereinigung für Wertpapierbesitz e.V.

- Deutsche Telekom AG
- E.ON AG
- Feri Finance AG (Deputy Chairman)
- ThyssenKrupp Stainless AG

– Gartmore SICAV, Luxembourg
– Phoenix Mecano AG, Switzerland (President of the Administrative Board)

Prof. Dr. h. c. Karlheinz Hornung since December 12, 2007
Chief Financial Officer of MAN AG

- Demag Cranes AG
- MAN Diesel SE **
- MAN Ferrostaal AG **
- MAN Nutzfahrzeuge AG **
- manroland AG
- MAN TURBO AG **
- RENK AG (Deputy Chairman) **

– MAN Capital Corporation, USA **

Peter Kalow * until April 23, 2008
Formerly Chairman of the General Works Council of Quelle GmbH; systems developer

Franz Lajosbanyai * until March 27, 2008
Chairman of the Central Works Council of neckermann.de GmbH

- neckermann.de GmbH (Deputy Chairman)

Holger Robert Lampatz until October 31, 2007
Formerly Chairman of the Management Board of MAXDATA AG

Dr. Hans-Jochem Lüer since November 9, 2008
Lawyer and senior partner in Heuking Kühn Lüer Wojtek law firm in Cologne

Rüdiger Merz * since April 23, 2008
Flight attendant

Margret Mönig-Raane *
Vice President of the Vereinte Dienstleistungsgewerkschaft (ver.di) service-sector union and Director of its National Commerce Sector

- Rewe Deutscher Supermarkt KGaA

Wolfgang Pokriefke * until April 23, 2008
Deputy Chairman until April 23, 2008
Chairman of the Central Works Council of Karstadt Warenhaus GmbH

Wilfried Reinhard * since April 23, 2008
Chairman of the Group Works Council of Thomas Cook AG, commercial employee

- Thomas Cook AG *

* Employee representative
** Group companies
• Member of other supervisory boards required by law
\- Member of comparable control bodies

Dr. Hans Reischl
Formerly Chairman of the Management Board of REWE-ZENTRAL AG

- Alte Leipziger Holding AG
- Alte Leipziger Versicherungsverein aG
- MAXDATA AG

Rita Rodenbücher * until April 23, 2008
Chairwoman of the Works Council of Karstadt Warenhaus GmbH, Duisburg branch, commercial employee

- ip69 internet solutions AG

Juergen Schreiber until October 31, 2008
President & Chief Executive Officer, Shoppers Drug Mart

- GfK AG

Christa Schubert *
Chairwoman of the Works Council of Karstadt Warenhaus GmbH, Recklinghausen branch, Commercial Assistant

Ernst Sindel * since April 23, 2008
Chairman of the Group Works Council of Quelle GmbH, commercial employee

- Quelle GmbH (Deputy Chairman) **

Michael Stammler
Chairman of the Management Board of Feri Finance AG

- eCapital New Technologies Fonds AG
- Feri EuroRating Services AG (Chairman)
- Heliocentris AG
- Quelle Bauspar AG

Walter Strasheim-Weitz * since April 23, 2008
Chairman of the Works Council of HESS Natur Textil GmbH, commercial employee

Gertrud Tippel-Kluth *
Secretary to the Federal Executive Committee of the German trade union ver.di, Commerce Department

- Karstadt Warenhaus GmbH
- SinnLeffers GmbH

Werner Wild * until April 23, 2008
Deputy Regional Director, ver.di Baden-Württemberg

Dr. Klaus Zumwinkel
Management consultant,
formerly Chairman of the Management Board of Deutsche Post AG

- Deutsche Lufthansa AG

* Employee representative
** Group companies
• Member of other supervisory boards required by law
– Member of comparable control bodies

MANAGEMENT BOARD

Dr. Thomas Middelhoff
Chairman

- • Karstadt Warenhaus GmbH *
- • Senator Entertainment AG (Chairman)
- – BHF-Bank
- – Fitch, France
- – Germany1 Acquisition Limited (Co-Chairman)
- – Moneybookers Ltd., UK (Chairman)
- – New York Times Company, USA
- – NRW.Bank
- – RWE AG
- – Thomas Cook Group plc, UK (Chairman) *

Marc Sommer
Deputy Chairman since April 23, 2008

- • Karstadt Warenhaus GmbH *
- • Quelle GmbH (Chairman) *
- • Primondo Management Service GmbH (Chairman) *
- • myby GmbH (voluntary member of the Supervisory Board) *
- – Quelle AG, Austria (Chairman) *
- – Quelle OÜ, Estonia (Chairman) *

Dr. Matthias Bellmann
Member of the Management Board until September 26, 2008

- • neckermann.de GmbH
- • Quelle GmbH *
- • Thomas Cook AG *

Dr. Peter Diesch
Member of the Management Board

- • Delton AG
- • KarstadtQuelle Bank AG (Chairman) *
- • KarstadtQuelle Krankenversicherung AG (Deputy Chairman),
- • KarstadtQuelle Lebensversicherung AG (Deputy Chairman)
- • KarstadtQuelle Versicherung AG (Deputy Chairman)
- • Karstadt Warenhaus GmbH (Chairman) *
- • neckermann.de GmbH
- • Quelle GmbH *
- – KarstadtQuelle Finanz Service GmbH (Chairman) *
- – Thomas Cook Group plc, UK *

Manny Fontenla-Novoa
CEO at Thomas Cook Group plc, UK and
member of the Management Board of Arcandor AG since April 23, 2008

- • Condor Flugdienst GmbH *
- • Thomas Cook AG *
- – Elegant Resorts Ltd. UK *
- – Hispanoalemana de Management Hotelero S.A., Spain
- – Hotels4U.com Ltd., UK *
- – Mediterranean Touristic Management SL, Spain
- – Thomas Cook India Ltd., India *
- – Portal Interactiv S. L. Unipersonal, Spain
- – Thomas Cook Investments (1) Ltd., UK *
- – Thomas Cook UK Travel Ltd., UK *
- – Thomas Cook Wholesale Ltd., UK *
- – Thomascook.com Ltd., UK *
- – Worldchoice Marketing Ltd., UK

* Group companies
• Member of other supervisory boards required by law
– Member of comparable control bodies

Rüdiger Andreas Günther
Member of the Management Board since December 1, 2008

- – COMMERZBANK AG
- – Dresdner Kleinwort
- – "Corporate Perspectives Mittelstand" of Commerzbank AG
- – WestLB AG

Stefan W. Herzberg
Member of the Management Board since December 1, 2008

- – TENTE-ROLLEN GmbH

Prof. Dr. Helmut Merkel
Member of the Management Board until December 31, 2008

- • EDS ITELLIUM GmbH *
- • Karstadt Warenhaus GmbH *
- • Quelle GmbH *
- – Bundesarbeitsgemeinschaft der Mittel- und Großbetriebe des Einzelhandels e.V. (President)
- – Hauptverband des Deutschen Einzelhandels e.V., (Vice President)

Peter Michael Wolf
Member of the Management Board until July 31, 2008

- • Thomas Cook AG *

* Group companies
• Member of other supervisory boards required by law
– Member of comparable control bodies

ARCANDOR Aktiengesellschaft
Essen, December 5, 2008

THE MANAGEMENT BOARD

Dr. Thomas Middelhoff
(Chairman)

Marc Sommer
(Vice Chairman)

Dr. Peter Diesch

Manny Fontenla-Novoa

Rüdiger Andreas Günther

Stefan W. Herzberg

Prof. Dr. Helmut Merkel

AUDITOR’S OPINION

“We have audited the consolidated financial statements prepared by ARCANDOR Aktiengesellschaft – comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the Group Management Report for the financial year from October 1, 2007 to September 30, 2008. The preparation of the consolidated financial statements and the Group Management Report in accordance with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to section 315a paragraph 1 HGB and additional requirements of the articles of association are the responsibility of the parent company’s management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group Management Report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) and in supplementary compliance with International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group Management Report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group Management Report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the Group Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315a paragraph 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group Management Report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.

Without limiting this assessment, we direct you to information in the Group Management Report. In the “Risk report” section it is detailed that the continuity of the ARCANDOR Group depends particularly on the maintenance and extension of credit lines and loans coming to an end in the 2008/2009 financial year."

Düsseldorf, December 5, 2008

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

signed	signed
Dyckerhoff	Rauscher
Public auditor	Public auditor

RESPONSIBILITY STATEMENT

"To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Management Report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year."

ARCANDOR Aktiengesellschaft
Essen, December 5, 2008

THE MANAGEMENT BOARD

Dr. Thomas Middelhoff
(Chairman)

Marc Sommer
(Vice Chairman)

Dr. Peter Diesch

Manny Fontenla-Novoa

Rüdiger Andreas Günther

Stefan W. Herzberg

Prof. Dr. Helmut Merkel

INDEX

INDEX

YOUR CONTACTS

Investor Relations
Phone: +49 (0)201 727 98 16
Fax: +49 (0)201 727 98 54
ir@arcandor.com

Detlef Neveling
Head of Investor Relations
Phone: +49 (0)201 727 98 17
detlef.neveling@arcandor.com

Ute Schwenn
Office/Assistant
Phone: +49 (0)201 727 98 16
ute.schwenn@arcandor.com

Jürgen Koch
Investor Relations Manager
Phone: +49 (0)201 727 98 36
juergen.koch@arcandor.com

Karin Widenmann
Investor Relations Manager
Phone: +49 (0)201 727 71 24
karin.widenmann@arcandor.com

Corporate Communications
Phone: +49 (0)201 727 20 31
Fax: +49 (0)201 727 98 53
konzernkommunikation@arcandor.com

Gerd Koslowski
Head of Corporate Communications
Phone: +49 (0)201 727 25 38
Fax: +49 (0)201 727 37 09
gerd.koslowski@arcandor.com

IMPORTANT INVESTOR RELATIONS DATE

Interim Report to December 31, 2008 (Quarter 1)	February 12, 2009
Annual General Meeting (Düsseldorf)	March 18, 2009

IMPRINT

Publisher
ARCANDOR AG©
Theodor-Althoff-Str. 2, D - 45133 Essen
www.arcandor.com

Overall conception and realization
HGB Hamburger Geschäftsberichte GmbH & Co. KG und ARCANDOR AG

Photos
ARCANDOR AG
Holger Jacoby, Dortmund

Reproduction
Hirte Medien-Service GmbH & Co. KG, Hamburg

Printed and produced by
Dorsten Druck GmbH, Dorsten
H. & W. Hennes GmbH, Gladbeck

Future-focused statements

Also to be found in this annual report are future-focused statements based on estimates by the Arcandor management. Such statements reflect Arcandor's view with regard to future events at the time at which they were undertaken and are subject to risks and uncertainties. Many factors may cause the actual results to deviate not inconsiderably from the estimates given here. Such factors include – besides other changes in general economic and business conditions – changes in exchange rates, volatilities, prices of fuel and interest levels or changes in corporate strategy. Arcandor rejects any intention or obligation to update these statements about the future made at a specific point in time.

ARCANDOR ANNUAL REPORT OF THE GROUP 2007/2008